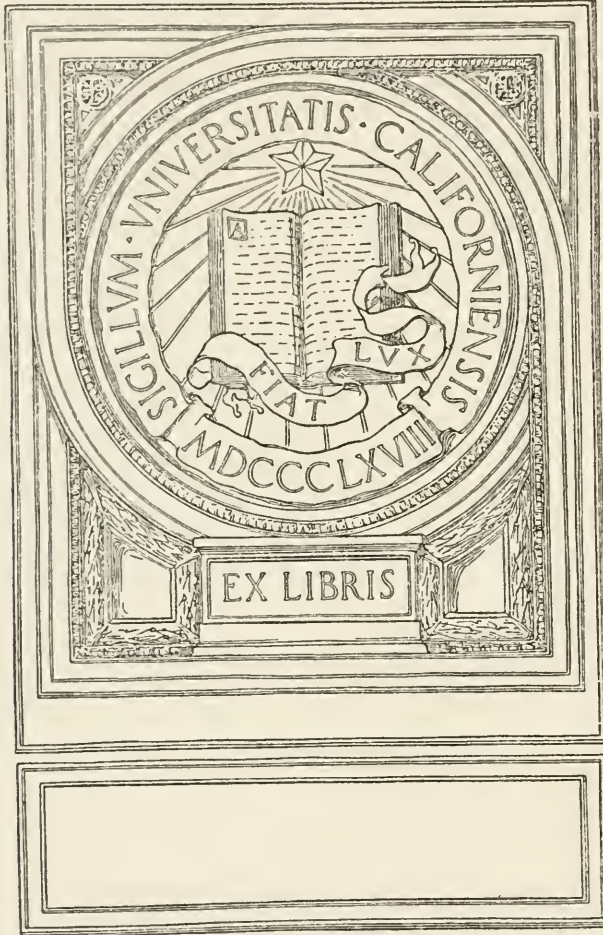


Henry F. Grady

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THE FOREIGN TRADE
OF THE UNITED STATES



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THE FOREIGN TRADE OF THE UNITED STATES

ITS CHARACTER, ORGANIZATION
AND METHODS

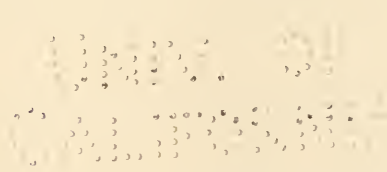
BY

L. C. FORD AND THOMAS F. FORD

WITH AN INTRODUCTION BY

W. L. SAUNDERS

PRESIDENT AMERICAN MANUFACTURERS' EXPORT
ASSOCIATION



CHARLES SCRIBNER'S SONS

NEW YORK

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INTRODUCTION

The youth of the United States compared to the age of other great nations has given her the advantage over them that she could profit by their experience. But in another way it has worked to her disadvantage: she has from time to time been drawn into fields of enterprise wholly new to her in competition with old nations accustomed to them from the first and participants in each stage of their development. But she has never entered one with less knowledge of principles and methods than that with which she now takes a hand in the complicated game of foreign trade.

In diplomacy and in war, to mention two departments of international competition into which she has been drawn as a novice, the United States has shown a capacity for rapid learning which, with beginners' luck perhaps, has brought her out with credit. This new activity of international trading she will master too; but since time is pressing, few greater services could now be rendered her people than that of diffusing an understanding of its principles and practice. It is therefore a pleasure to introduce a book so ably designed for the purpose as *The Foreign Trade of the United States*. Particularly is it so designed in being simple, elementary, and complete: since international trading in this country is in its infancy, it should draw to itself a large number of beginners who must in great measure prepare themselves for the unusual opportunities it offers of rapid advancement. Indeed, only the rising generation can completely master the problems and the technic of foreign trade—and this book is primarily planned for beginners.

The basic reason why we must become foreign traders in a large way resides in the irresistible action of economic law. Far-sighted commercial men have long recognized

both the opportunity and the inevitability of engaging in this field; and of course we have long done so to some extent, but in the main in a spasmodic way, regarding foreign markets rather as a dumping-ground for a surplus of products created by temporary conditions.

But now, as older nations did long before us, we have reached a stage where our productive capacity is such that we shall normally have a constant surplus beyond our needs. This situation was predestined: we have vast resources—no nation possesses so immense a supply of the basic raw materials of industry. The question was simply one of a lapse of time sufficient to allow for the requisite growth of population and its natural concomitants before we should produce such a surplus for export. The output of our manufactories is now greater than that of any other country. To this degree of development we were brought suddenly because of the stimulation of the European demands upon us during the war, which quickened our development in plants, organization, and skill. At the same time the war acted to reduce the disadvantage we were under in the large item of the cost of labor by increasing the rates of wages in Europe to a greater proportional degree than it has increased them here. We should show a singularly uncharacteristic lack of enterprise if we did not recognize our opportunity and press our advantage; but to do so we must absorb the methods of foreign trade with a rapidity corresponding to that with which our situation was changed instead of learning more gradually, as we should naturally have done had this development been subjected to no adventitious acceleration.

For instance, we must overcome our somewhat contemptuous ignorance of foreigners, which results simply from our inexperience with them. The great nations of Europe have, by the mere fact of contiguity, learned to adjust their points of view to those of foreign peoples. Our comparative geographical remoteness, partly, but even more,

the nearly absolute economic independence conferred by a small population and great but undeveloped resources, freed us until recently from any pressure of necessity in this direction. Accordingly we are too prone to ignore national differences: the little peculiarities of other peoples seem to us insignificant details, although in their effect upon business relations they come to have a great importance. We must then learn to understand the exceedingly intricate mechanism of foreign commerce—the methods of procuring and handling foreign business, the details incident to export shipment such as the proper documentation, packing, insurance, credit arrangements, and the whole general question of financing. These matters are admirably explained by the authors of this book: in a very complete exposition of export technic, for example, an order is traced from the time it is received through all its stages until delivery is made; and this same concrete method of explanation is followed in the explanations of the other phases of commerce.

But any true perspective of foreign commerce such as even a purely practical mastery of the business of exporting and importing demands will be based upon a comprehension of the *principles* of foreign trade. They are elusive, and can only be mastered by close study. For instance, no one has mastered the subject without understanding foreign exchange; this indeed is the pivotal point in the economics of foreign trade. Nor can any one properly be said to understand it who has not completely freed himself from the old fallacy which even so great a mind as Napoleon's accepted—that it is desirable the nation should sell but not that it should buy. As the authors of this volume explain in their early pages, which set forth the principles of the subject, foreign trade is an exchange of goods and services; its ideal condition is one of a balance of imports and exports. A nation's aim should not be, as it was until the day of Adam Smith, to sell her

products in vastly greater quantity than that in which she buys the products of others; but rather, through a multitude of transactions in exporting and importing, to strike an exchange something like equal in the total. The sale of goods abroad is, therefore, but one half of the operation, and it cannot continue indefinitely unless the other half is fulfilled.

At present our exports enormously exceed our imports. This excess, accumulating in something like geometric progression since 1914, has transformed us from a debtor into a creditor nation. The unprecedented fluctuations in exchange which have brought the dollar to a premium in all of the countries of the world but those whose sales to us have exceeded their purchases, are due principally to the large excess of our exports over our imports. It is this condition as revealed in these extreme fluctuations that has made the problem of payment for our exports one that is baffling our financiers, manufacturers, and exporters. Whatever temporary relief may be given by the contrivances of credit, a proper adjustment can only be reached when our exports are paid for to a far greater extent than now, by means of imports.

The principles underlying such matters as these are excellently handled in this book—a book that will give sound and valuable information wherever it is read or wherever it is used for reference. To the inexperienced, the student, or the beginner, it should be invaluable: one can easily imagine it in use as a text-book in business schools, and in universities which give practical courses in political economy, or in foreign trade itself. But even the seasoned importer and exporter will prize it.

W. L. SAUNDERS,
*President American
Manufacturers' Export Association.*

NEW YORK, April 28, 1920.

THE FOREIGN TRADE
OF THE UNITED STATES

THE FOREIGN TRADE OF THE UNITED STATES

CHAPTER I

THE NATURE, PURPOSE, AND GROWTH OF INTERNATIONAL TRADE

Occasion for Commerce.—The principle of barter is one that has its foundation in human needs, human desires, and human ambitions. Even in the most primitive state of society, commerce in a restricted form exists. The Indian tribes of North America, long before they were brought into touch with the civilization of Europeans, exchanged wampum for pottery, ornaments, skins, and food. Savage tribes of remote regions, quite outside the sphere of the influence of civilization, invariably carry on some trade with neighboring tribes, not being willing to subsist on what they find at hand or on what they can produce.

The saying “Distant fields are always green” is well illustrated in the realms of commerce. Strange products from far-off lands have always had a fascination that has been of immense importance in the development of commerce. The willingness of savage tribes to exchange food, furs, and even services for multicolored baubles of glass, sparkling trinkets, fantastic articles of clothing, and other intrinsically worthless trifles has been the means of building up vast private fortunes and of opening up new trade routes.

The trade in tobacco, which reaches mammoth propor-

tions, is an example of a great industry founded on an artificial taste deliberately cultivated. All of the luxuries, such as diamonds, beautiful fabrics, hand-wrought works of art, pictures, and even books, each forming a large item in the world's commerce, are supplied in response to a demand for something more than the tiresome necessities of life, which basically is not so different from the longing of the savage soul for beads and trinkets.

No single locality, however favored by the climatic and other conditions, is capable of supplying the multifarious wants of civilized man. In order to have these wants supplied, the surplus products of one district or country must be exchanged for the surplus products of many other regions, some located in the far corners of the earth. Commerce is thus the handmaiden of civilization, catering to the wants of man and enabling him to exchange what he has in superabundance for those other commodities not produced in his locality.

The Control and Direction of Commerce.—One of the fundamental tenets of economics is that the law of supply and demand is the basis of commerce. Where the supply of any product is abundant it will be sent to other places where the demand for this commodity is greatest. If no efforts were made to promote trade between nations, if astute business men and powerful financiers did not spend their lives and efforts in building up trade to redound to their advantage, if all over the world there were no concerted effort to create a demand for certain commodities produced by certain nations, if transportation routes and transportation facilities did not influence and even determine trade, if tariff laws were not made and abolished in the interest of trade, if there were no government interference whatever in commerce, if, in short, the most primitive conditions of barter prevailed, this law would still hold, but the nature and trend of commerce would be altogether different.

But the wide-awake, progressive commercial nations of to-day are not content to produce only those commodities nature has most clearly indicated for each district, nor to curb their production until a demand develops spontaneously. The energetic, aggressive captain of industry is ever looking for new fields to conquer, the production and exchange of those commodities demanded by a ready-made market being a simple task with little appeal to the constructive genius. It is the business of the leaders of trade to create markets, arouse demand, construct transportation facilities, develop new industrial regions, to control and direct industry and commerce.

Nature's Handicaps Removed.—Does a nation lack the raw materials essential to the development and maintenance on a large scale of the industry of manufacturing? Immediately, it constructs or arranges for the transportation facilities necessary to a world-wide trade and brings from far-off lands those raw materials it lacks, converts them into finished products, and sells the surplus back to the very countries from which it obtained the essential raw materials.

This is well illustrated in the case of England, which has for years imported great quantities of raw cotton from the United States, and exported manufactured cotton in the form of textiles to the United States; has imported wool from Australia and Argentina, converted it into yarn, worsteds, and other fabrics, and sold these finished products to those countries, among others, supplying the raw material. Germany, likewise, built up a tremendous foreign trade by going beyond her own domains for many of the raw materials of commerce, expending time and thought and ingenuity in converting these into valuable manufactured products and selling them to the various nations of the earth. The restrictions placed upon industry by conditions of climate, soil, and population have thus been effectually removed, and nations heavily handi-

capped by nature have risen to positions of industrial and commercial eminence through sheer enterprise and ambition.

The Effect of Improved Transportation Facilities.—The effect of adequate transportation facilities on industry and commerce is little short of the marvellous. When transportation is expensive and dangerous, extensive commerce can be carried on profitably only in those commodities possessing a high value. When the caravan was the principal means of transportation, the only commodities commanding a wide market were rare and expensive articles such as the precious metals, ivory, costly woods, spices, and other luxuries of the rich and powerful. The ships of Solomon which came every three years from Tarshish bringing “gold and silver, ivory and apes, and peacocks” are typical of early commerce. Under such conditions, commerce catered to the few, while the great mass of the people were obliged to depend upon those commodities produced in their own or in near-by localities. Such staple commodities as rice, wheat, corn, meat, fruit, cotton, wool, leather, and machinery, now the principal articles of international trade, were of little importance in world commerce until comparatively recent times, because the expense incident to transportation was too great to make a profitable world-wide trade in them possible.

Water transportation has always been the cheapest, and from earliest times those nations having excellent harbors and ports have led in world commerce. From the time that the Phœnician cities of Tyre and Sidon, in the sixth century B. C., sent out their ships to trade with every settlement on the islands and on the coasts of the eastern Mediterranean and of the Black Sea, everywhere founding trading-stations and carrying the products of one region to another, returning with rich and varied cargoes to be distributed far inland by means of caravans, every great nation has attempted in one way or another

to develop an overseas commerce that would enable it to exchange its surplus products for those of other nations.

Revolutionary Effects of Steam.—Until steam was made the motive power of both land and water transportation, world-wide commerce was for the most part confined to those regions near the sea. The steamboat has been a factor in commerce for less than a century and the railroad for less than eighty years, yet these two have revolutionized it. Now, a far inland region can sell its products in the most remote parts of the world and secure for its own use every article made desirable by need or whim or fancy. With their corn the farmers of Illinois and Iowa can and do purchase the products of every race and clime. French silks and laces and gloves; cunningly wrought toys, porcelains, and fabrics; English cutlery, cotton and woollen fabrics; Japanese silks and bric-à-brac; Chinese tea, lacquered ware, and ivory carvings; Swiss clocks and toys; Latin-American coffee, spices, and bananas, and a myriad of other articles, are the commodities of every-day life in regions that were, not many decades ago, far remote from commerce. The most obscure farmhouse to-day boasts of luxuries which, less than a century ago, were beyond the dreams of avarice.

The effect of the railroad in developing commerce and promoting industry is difficult to realize. With it come settlers, traders, speculators, adventurers, whose combined efforts result in the development of long-neglected latent resources, and where was a barren waste, a lonely grassy mesa, or an inaccessible hill country flourishes a land of farms, homes, banks, manufactures, and allied industries, each taking an active part in the world's trade. Thus new fields for the extension of commerce are constantly developing, and the resources of the world that once seemed so limited are found to be incalculable.

Recent Growth of World Commerce.—The last half-century, with its marvellous developments in industry and

its world-wide improvements in transportation facilities on both land and water, has witnessed the greatest growth of the centuries in the international exchange of commodities, culminating in 1913, when the combined value of all articles entering the trade between nations exceeded \$40,000,000,000, which was just double that of 1900. The reasons for the stupendous expansion in recent years are many. Increase in the population of the world and in the wants of that population; a greater specialization in industry; better and cheaper methods of production and transportation; the development of new fields for the supply of raw materials, and a more generally diffused prosperity resulting in greater purchasing power, are all factors whose combined result made the first thirteen years of the twentieth century the period of greatest industrial and commercial activity since the dawn of civilization.

The Bureau of Foreign and Domestic Commerce of the United States Department of Commerce has assembled the following valuable table of statistics, showing the world's development in population, production, vessel tonnage, and commerce since the year 1800.

Countries Leading in International Trade.—Almost one-half of the international exchange of commodities in 1913 was credited to four nations, the United Kingdom, Germany, the United States, and France, in the order named. The United Kingdom claimed over one-seventh of the total, Germany over one-ninth, the United States one-tenth, and France about one-thirteenth. Years between 1913 and 1918, when the nations engaged in the World War were devoting their energies to the destruction of industry and commerce, do not provide statistics upon which to base any study of the subject.

A development of far-reaching importance in international trade is the marvellous growth of the industry of manufacturing in the United States, notably since the opening of the present century, whereby nearly one-half of our

WORLD'S DEVELOPMENT OF POPULATION, PRODUCTION, VESSEL TONNAGE, AND
COMMERCE—1800 TO 1914

Year	Popu- lation	COMMERCE		NOMINAL TON- NAGE OF VESSELS		Rail- ways	Tele- graphs	Cables	PRODUCTION OF COTTON, COAL, AND PIG IRON			Gold pro- duction, decade ending year named
		Total	Per capita	Sail	Steam				Cotton	Coal	Pig iron	
	Millions	Million dollars	Dollars	Thous. tons <i>a</i>	Thous. tons <i>a</i>	Th'd miles <i>a</i>	Th'd miles	Thous. miles	Million lbs. <i>a</i>	Million tons	Million tons <i>a</i>	Million dollars <i>b</i>
1800....	c640	1,479	2.31	4,026	.....	.....	.....	.....	520	11.6	0.8	128.5
1820....	d780	1,659	2.13	5,814	20	.....	.....	.....	630	17.2	1.0	76.1
1830....	d847	1,981	2.34	7,100	111	.....	.....	.....	820	25.1	1.8	94.5
1840....	e950	2,789	2.93	9,012	368	0.2	.....	.....	1,310	44.8	2.7	134.8
1850....	e1,075	4,049	3.76	11,470	864	5.4	.....	.....	1,435	81.4	4.7	363.9
1860....	e1,205	7,246	6.01	14,890	1,710	24.0	5	1-40	2,551	142.3	7.2	1,334.0
1870....	f1,310	10,663	8.14	12,900	3,040	139.9	100	1½	2,775	213.4	11.9	1,263.0
1880....	g1,439	14,761	10.26	14,400	5,880	224.9	440	49	3,601	340.0	18.0	1,150.8
1890....	h1,488	17,519	11.80	9,166	8,295	390.0	768	132	5,600	466.0	27.2	1,060.1
1900....	i1,543	20,105	13.02	6,674	13,857	500.0	1,180	200	6,247	800.0	40.4	2,100.0
1910....	j1,616	33,634	20.81	4,624	22,046	637.0	1,307	291	k9,013	l1,141.6	65.8	3,780.3
1912....	11,643	39,570	24.08	4,083	24,978	683.4	1,400	m320	k10,488	l1,377.0	n71.4	4,708.4
1913....	11,652	40,420	24.47	3,891	26,517	690.2	1,462	m330	k11,099	l1,478.0	n77.4	4,730.6
1914....	11,661	37,760	22.73	3,686	27,988	703.5	1,489	m335	k12,382	l1,346.0	.....	4,752.7

a Mulhall's estimates except for 1830, 1890, 1900, and later years. *b* Soetbeer's estimates prior to 1860. *c* Malte-Brun's estimate for 1804. *d* Based on Balbi's estimate for 1828. *e* Based on Michelet's estimate for 1845. *f* Based on Behm-Wagner estimate for 1874. *g* Levassour's estimate for 1878. *h* Royal Geographic Society's estimate. *i* Figures represent only such countries as have commercial records, and do not include various unimportant subdivisions of the world. *k* Figures of the Bureau of the Census. *l* Figures of the Geological Survey. *m* Estimate of the Imperial Post-Office of Germany. *n* Partly estimated.

8 FOREIGN TRADE OF UNITED STATES

exports have come to consist of manufactured articles, that are entering into the keenest competition in the markets of the world with those of the old-established manufacturing nations. The United States produces more iron, coal, copper, petroleum, and cotton—the basic raw materials used in modern manufacturing—than any other nation; its people possess a natural aptitude for the use of machinery, a genius for invention, great ingenuity in adapting means to ends, and that indefatigable energy that sweeps away all obstacles that stand in the way of achievement. A readiness to adopt large-scale methods of production, to replace old methods with new ones, and to consolidate great industries, are all factors making for the increased output of manufactures. The effect of such concentration and consolidation in increasing production is indisputable; the effect on the distribution of the products of industry is another question, which need not be considered here.

Foreign Trade and National Prosperity.—To say that a nation is leading the world in the volume and value of its foreign trade is not equivalent to saying that the people of that nation enjoy a larger proportion of the comforts and luxuries of life, or that they possess superior ability or greater advantages than those of other nations. It may mean that they live in an unproductive land and are obliged to depend upon a few commodities, which they exchange with more favored nations for the necessities of life. Aden, a British coaling-station in southern Arabia, has the largest per capita foreign trade recorded, because it is a sterile country and its people have to import all articles of food and clothing as well as building material, fuel, and drinking-water. In exchange for these commodities they give their services in coaling vessels passing through the Suez Canal and the Red Sea. Their standard of living is not high, and they are not the most prosperous people of the globe. On the other hand, the United States

ranks first among the nations in the value of its foreign commerce, and at the same time its people enjoy the highest standard of living, and no country is more prosperous. From its superabundance it is able to export great quantities of products and to obtain in exchange other commodities that add greatly to the comfort and well-being of the people.

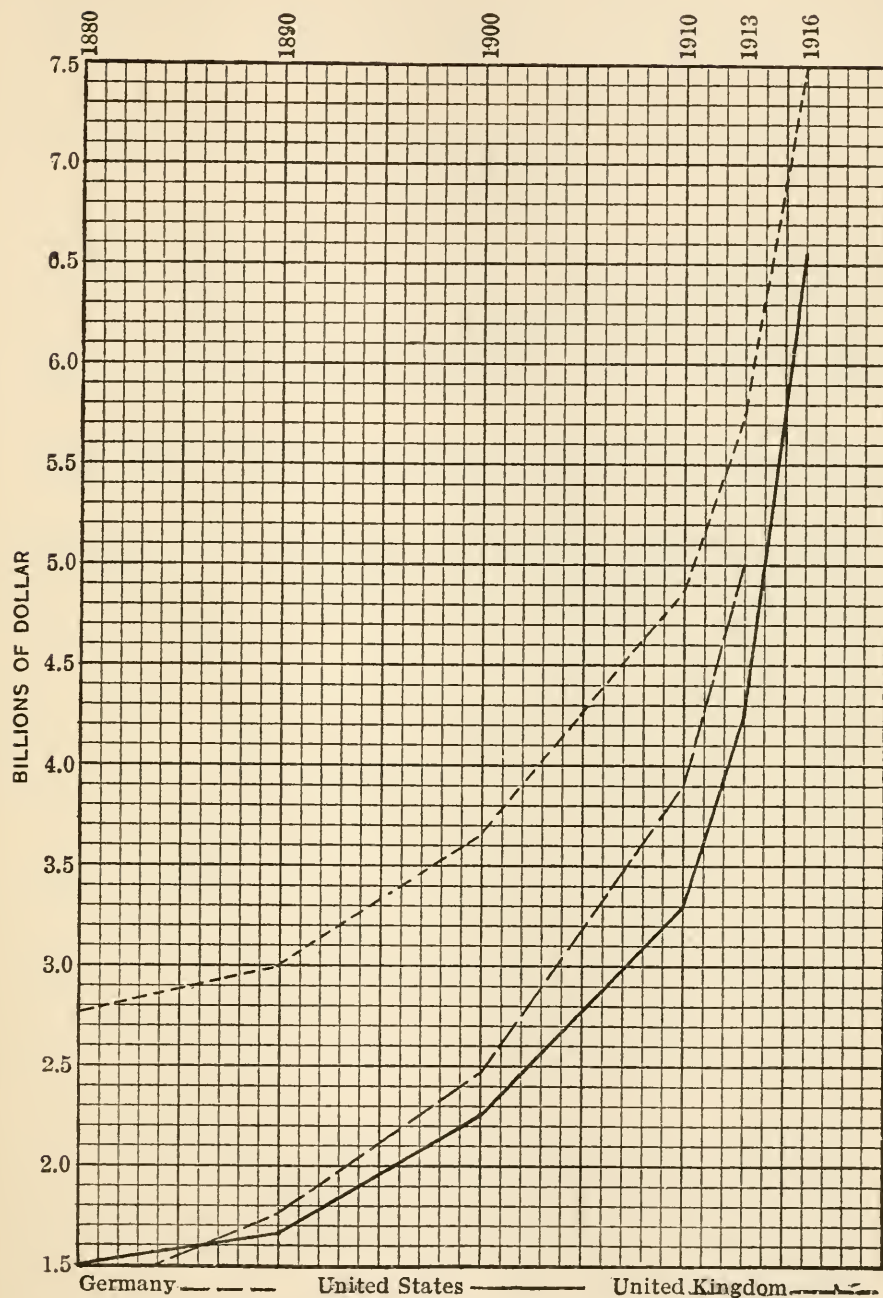
The exchanges between the citizens of different nations are made possible when each country produces a surplus of one or more kinds of commodities, which it is able to exchange for other commodities that it lacks. The lack may be due to climatic or other conditions which render the production of certain articles impossible, or to natural or social conditions which make their production too expensive for common use. It may be due to a preference on the part of the people for certain occupations. For instance, in the United States it is difficult to procure farm labor, our workers preferring city employment in factories or otherwise. Hence, the production of agricultural products is discouraged, while manufactures flourish.

It is popularly supposed that export trade is more valuable than import trade, and that it is this branch of commerce that must be encouraged. It may easily be shown that the gain to a country is in its imports; unless it receives for its exports commodities more desirable than those parted with, there is no advantage in the exchange, except that derived by the individuals who may make a profit on the transactions. The United States may export cutlery to England and import similar articles from England, that could be produced here just as well and just as cheaply. In that case, the only gain is that derived by the traders engaged and by the transportation and marine insurance companies. In its broadest aspects, then, foreign trade is only profitable when it adds to the comfort, the ease, the gratification of the people as a whole. In the words of Adam Smith: "It carries out that surplus part of

the produce of their land and labor for which there is no demand among them, and brings back in return for it something else for which there is a demand. It gives a value to their superfluities, by exchanging them for something else which may satisfy a part of their wants and increase their enjoyments. By means of it the narrowness of the home market does not hinder the division of labor in any particular branch of art or manufacture from being carried to the highest perfection. By opening a more extensive market for whatever part of the produce of their labor may exceed the home consumption, it encourages them to improve and to augment its annual produce to the utmost, and thereby to increase the real revenue and health of society."

A Wider Internationalism.—The movement toward a wider internationalism, growing out of the World War, is bound to result in an even freer exchange of products among the nations of the earth. The immediate effect of the war has been to arouse in the nations engaged a determination to be self-sustaining to a degree never attempted since modern commercial methods have prevailed. It is freely pointed out that the territorial division of labor made possible by foreign trade leads to extreme specialization, whereby one country or group of countries may become wholly agricultural and another country or group of countries may depend entirely upon manufacturing, to a sacrifice of self-sufficiency that may lead to serious difficulties in times of war or stress. While such a sane and healthful balance in its industries as France has been able to maintain is desirable, extreme self-sufficiency entails such a sacrifice as modern nations will hardly care to make under normal conditions. The economic and industrial waste of a nation's trying to produce all that it consumes is evident. The plan that is bound to prevail is for each nation to devote the major part of its energies to the production of those commodities in which it excels and for which its climate and natural conditions eminently

GROWTH OF INTERNATIONAL TRADE II



THE FOREIGN TRADE OF THE UNITED STATES, THE UNITED KINGDOM, AND GERMANY EXPRESSED GRAPHICALLY

fit it, and to distribute these products to wide areas, receiving in exchange those commodities that it cannot produce to the best advantage.

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CHAPTER II

DEVELOPMENT OF THE FOREIGN COMMERCE OF THE UNITED STATES

Colonial Commerce.—In the colonial period agriculture was the chief occupation of the American colonies, with the exception of those comprising New England, where fishing, lumbering, ship-building, and commerce were early developed.

In the South were great plantations of tobacco and rice, on which slave labor was largely used. As each year's crop was harvested, it was conveyed to the nearest port and shipped to England. In return for the tobacco and rice, and for the indigo, tar, pitch, resin, and lumber, which were minor products exported, manufactured articles, such as clothing, furniture, glass, crockery, hardware, and utensils were purchased in England. Even those articles that could have been manufactured easily and profitably at home were imported. In a country abounding in hardwoods, furniture was not manufactured, and timber for interior finish was not even prepared for use, but was sent to England to be dressed and then brought back. The strict trade and navigation laws imposed by England, the scarcity of skilled labor, and the lack of a mercantile class were the principal reasons why manufacturing lagged in the South.

In the middle colonies, comprising New York, New Jersey, Pennsylvania, and Delaware, farming flourished, with lumbering, the milling of flour, and the trapping of fur-bearing animals as important industries. Philadelphia early became the centre of an active commerce with England and the West Indies. Grain, flour, lumber, masts for ships, and live stock were the principal exports.

The hardy seafaring New Englander, prohibited by the harsh climate and unproductive soil from deriving his living from farming, turned to the sea for a means of livelihood, and the New England fisherman, the New England ship-builder, and the New England navigator and trader became no mean factor in the commerce of the period. The material for ships was to be had in the forests adjoining the rivers; native ingenuity and mechanical skill quickly took advantage of the situation, with the result that the Yankee seafaring traders in their stanch and daring sailing-craft early became known in every corner of the globe. They brought home codfish and whale-oil from the Grand Banks of Newfoundland, and took these, together with salt fish, oysters, and meat, shingles and barrel-staves, spars and masts, grain and flour, horses and oxen, to the West Indies, despite laws forbidding colonial trade with these islands. They received in exchange sugar, molasses, wool, and cotton. They sold to the West Indies more than they bought, and thus secured money and bills of exchange on London for the surplus, which were used in discharging the adverse balance of trade with England. English laws forbade the importation from the colonies of the staple agricultural commodities and fish, which were the exports of the middle and northern colonies. These products, which included grain, flour, dairy products, dried meats, fresh and salt fish, were sold to the West Indies and to southern Europe. A lively export trade with Spain and Portugal early developed; it was usually carried in ships of larger tonnage than those engaged in the West Indian trade, though 300 tons was the capacity of the larger ships. As English laws forbade the colonists to import foreign goods unless they were bought in England, the return cargo must be secured there. A common practice was for a colonial sea-captain to sell his cargo in Spain or Portugal, and then put in at an English port, where he either sold his ship or took on a cargo of hardware, cloth, carpets, brooms, and

household utensils, which were the manufactures most in demand in the colonies.

But these bold Yankee traders did not confine their activities to a few regions. Every European port of consequence, the West and East Indies, China, Madagascar, the Hawaiian Islands, the east and west coast of South America, even the trading-posts of the western coast of North America, were well known to them. New York, Maryland, and Pennsylvania were not slow to participate in this trade, which, while it entailed great risks, held out the chances of rich rewards.

FOREIGN TRADE OF THE UNITED STATES

Date	Imports Million dollars	Exports Million dollars	Total Million dollars
1790.....	25	20	45
1800.....	91	71	156
1810.....	85	67	152
1820.....	74	69	143
1830.....	63	71	134
1840.....	98	123	221
1850.....	174	144	318
1860.....	354	333	687
1870.....	436	392	828
1880.....	668	835	1,503
1890.....	790	857	1,647
1900.....	850	1,394	2,244
1910.....	1,557	1,745	3,302
1914.....	1,894	2,364	4,258

The data for this and for all similar tables are taken from the *Statistical Abstract of the United States*, issued annually by the Bureau of Foreign and Domestic Commerce of the Department of Commerce.

Commerce from 1776 to 1876.—During the period of the Revolutionary War and the Confederation commerce lagged, but with the adoption of the Federal Constitution, when commerce was given the support of a strong government with ample powers to protect and promote it, it revived. From 1789 to 1819 foreign trade waxed strong under the impetus of the Napoleonic wars, reaching the

climax in 1807, when the exports totalled \$108,000,000 and the imports \$138,000,000. The principal exports were wheat, flour, and other foodstuffs. A feature was the re-export of foreign products, notably of those from the West Indies. During part of the period the value of foreign exports exceeded that of our domestic exports. The imports were chiefly tropical products and manufactures. The embargo of 1807 put a quietus on foreign trade for fifteen months, but even with the lifting of this, trade did not thrive until after the close of the war of 1812-14. For three years following the signing of the Treaty of Ghent foreign commerce was in its heyday, the exports jumping from \$6,927,000 in 1814 to \$93,281,000 in 1818, and the imports from \$12,965,000 to \$121,750,000. Reaction with financial depression set in in 1819. The people then turned their attention to the great undeveloped West, and a tremendous migration to the Mississippi Valley resulted, with the consequent development of that region. All of the abounding energy of the nation was thus turned inward, and foreign trade was given little attention for over a decade.

The development of the West, however, combined with greatly improved transportation facilities, eventually stimulated the commerce of the nation, which was annually producing a surplus of raw materials and foodstuffs for which an outlet was needed. Between 1830 and 1850 the value of our foreign trade nearly doubled. The increase of the imports was even greater than that of the exports, because great quantities of manufactured and other materials were needed in the expansion that was taking place.

The decade between 1850 and 1860 was a halcyon one for foreign trade, especially on the export side. The development of the Middle West was reflected in the unprecedented quantities of wheat, corn, and flour exported, while the extension of the cotton area nearly tripled the exports of raw cotton. Other important exports were leaf

tobacco and forest and mineral products, while manufactures shot up from \$23,223,000 in 1850 to \$48,453,000 in 1860.

While foreign commerce naturally fell off during the Civil War, it is notable that the falling off was almost entirely confined to cotton and cotton manufactures. Even in the height of the conflict agricultural exports increased in response to the greater demand from abroad, caused by partial crop failures there. Just as in the World War, the women willingly took the places of men in the fields and elsewhere, so that there was no dearth of production except in the South.

During the war agricultural products continued to constitute fully three-fourths of our exports. Manufactures increased, too, and a larger surplus was left for export owing to the cutting off of the trade between the North and South. Higher prices helped to swell the total, but the increase of exports was in quantity as well as in value.

The high war tariff, together with the blockade of the South, materially decreased imports during the war, though the value of these in 1864 was only \$37,000,000 less than in 1860. The change in our foreign trade that followed the Civil War is thus summarized in Johnson and Heubner's *History of Domestic and Foreign Commerce of the United States*:

The decade following the Civil War marks the transition to a new era. Protective tariffs were definitely adopted with the avowed purpose of keeping out foreign and developing domestic manufactures. Large-scale manufacturing, begun during the war, developed rapidly and the foundations of the great trusts of the twentieth century were laid.

The Civil War affected the foreign trade not only through its influence upon the tariff policy, but also by encouraging the concentration of capital. The expansion of business in the Northern States, which occurred during the war, caused the free competitive system to begin to break down. During the war, consolidation began and the process has continued to the present in almost every

branch of business except agriculture. Its effects on commerce, domestic and foreign, have been manifold. Aside from the many effects which are the subject of controversy, it has been clear that the large producers have been able to compete successfully with producers of foreign wares; and that, with certain exceptions, the rapid progress which has been made in the exportation of manufactures has been brought about largely through the efforts of the great industrial consolidations.

Commerce from 1876 to 1900.—This period was marked by the steady advance of the value of manufactures exported, and by the change from an unfavorable to a favorable balance of trade, regularly maintained. Everywhere American manufacturers laid siege to and won foreign markets. In 1874 the manufactures exported constituted only 18.8 per cent of total exports; by 1900 they had expanded to 35.4 per cent of the total and their value had increased over fourfold, or from \$107,000,000 to \$485,000,000.

While agricultural exports more than doubled in value in this period, they became of less relative importance, though they still constituted 61 per cent of the total exports in 1900.

The same condition was reflected in the imports, where two changes are striking: first, the relative importance of manufactured imports declined, and, second, those crude materials for use in manufacturing won a position of unprecedented importance, climbing from 6.2 to 13.6 per cent of total imports and more than doubling in value. This class of imports, destined to play a more and more important part in our national life, includes crude rubber, wool, hides and skins, and textile fibres.

The change in the balance of trade, whereby exports exceeded imports in value, is one marking a new era. In 1874 the value of the nation's exports exceeded that of the imports by \$18,876,000. In 1875 the balance swung back in favor of imports, but since that date the trade balance

has been against the United States only three times, in 1888, 1889, and 1893.

The First Fourteen Years of the Twentieth Century.—The period from 1900 through 1914 was one of astounding industrial and commercial activity. The foreign trade of the United States advanced from \$2,244,000,000 in 1900 to \$4,258,000,000 in 1914. The imports rose from \$850,000,000 to \$1,894,000,000; the exports from \$1,394,000,000 to \$2,364,000,000. While the increase was partly due to higher prices, the actual increase in quantity and volume was enormous.

In analyzing the foreign trade of this period the one outstanding fact is the unprecedented increase in the exports of manufactures. While manufactured wares had forged ahead so as to form a highly important part of our export trade before the close of the nineteenth century, their gain in the first fourteen years of the twentieth century far surpassed that of any previous period.

In 1900 manufactures exported were valued at \$485,000,000; during the fiscal year ending June 30, 1914, their value was \$1,099,000,000. Again, in 1900 manufactures constituted 35.4 per cent of our total exports; in 1914 they constituted 47.2 per cent of the total.

This increase reflected the great industrial development of the United States, which doubled the total output of manufactured articles between 1900 and 1914, the value of all manufactured wares produced in the latter year being estimated at \$40,000,000,000.

In this period the great corporations, such as the Standard Oil Company and the United States Steel Corporation, with fully developed export organizations, advanced their sales in practically every country on the globe. Other manufacturers followed their example and definitely adopted the policy of manufacturing for the export trade, looking upon foreign markets as primary markets instead of merely as dumping-grounds for surplus products. In-

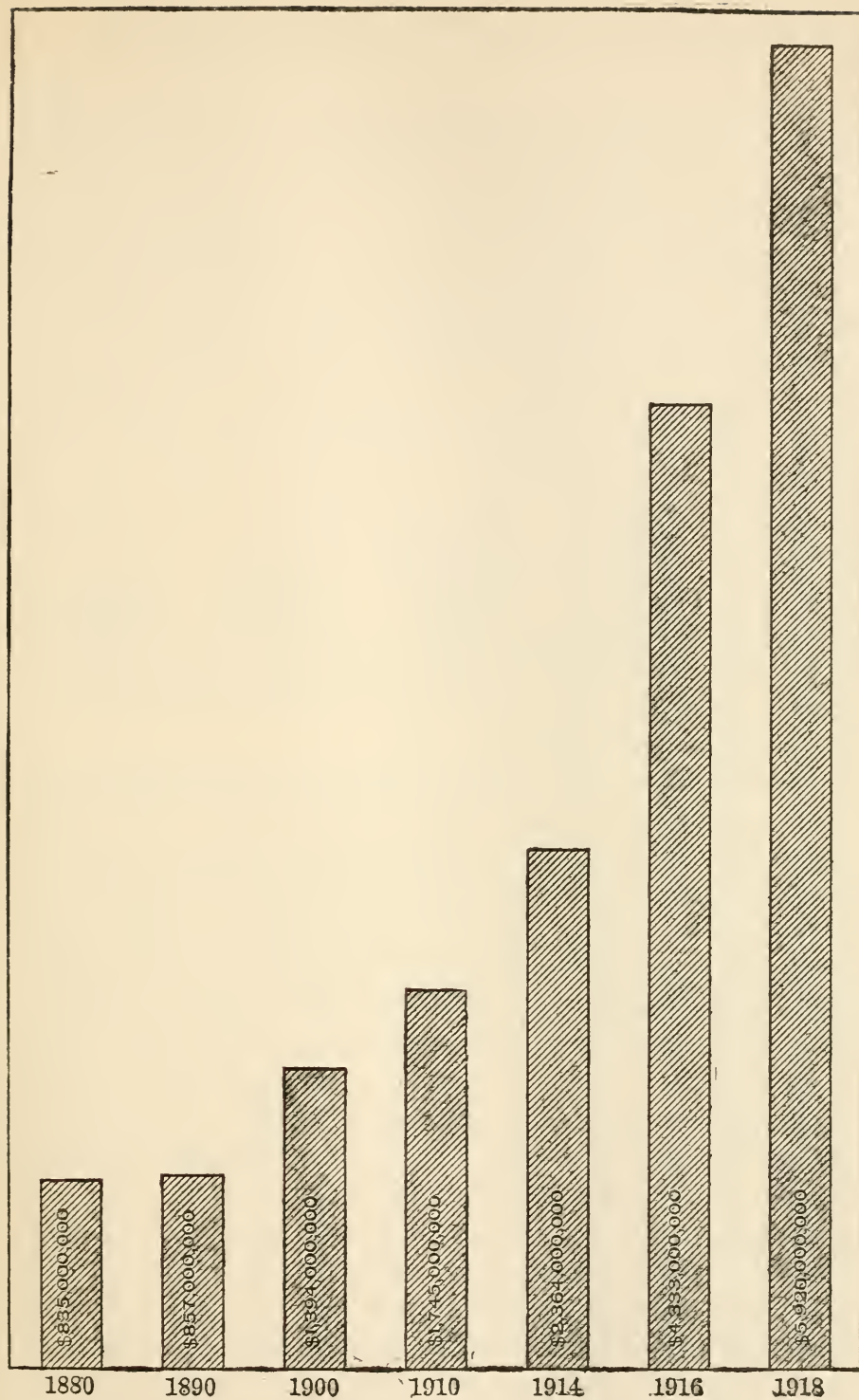
creased familiarity with the needs of foreign markets and the methods necessary to the successful building up of a permanent and valuable trade with other nations was another factor in the success of our manufactures abroad.

Iron and steel manufactures led all the rest in the long list of manufactured commodities exported; refined petroleum came next, with agricultural implements, cars, carriages and automobiles, leather goods, wood manufactures, and copper products all rolling up enormous totals.

Agricultural products continued to pour out of the country in immense volume, their value passing the billion mark for the first time in 1907. Between that year and 1914 the increase was comparatively slight. The lower relative importance of agricultural products in our export trade is seen by noting that they fell from 61.6 per cent of the total exports in 1900 to 47.8 per cent in 1914. In the latter year manufactures constituted 47.2 of the total exports.

The volume of the leading agricultural export, cotton, rose from 3,100,000,000 pounds valued at \$241,000,000 in 1900 to 4,760,000,000 pounds valued at \$610,475,000 in 1914.

The exportation of foodstuffs in this, as in former periods, shows great fluctuations. The increase from \$92,000,000 in 1870 to \$459,000,000 in 1880 reflected the wonderful development of our Western farms. Then this class of exports fell to \$356,000,000 in 1890, and again broke all records in 1900, when foodstuffs valued at over half a billion dollars went out of the country. In 1910 we note a decrease, with recovery in 1914. Variations in crops and prices are largely responsible for these extreme fluctuations. When we have a bumper crop our surplus is naturally larger than when the season is a poor one, with partial or total crop failures in many parts of the country. Likewise, when the prices paid for agricultural prod-



GROWTH OF THE EXPORT TRADE OF THE UNITED STATES,
1880-1918

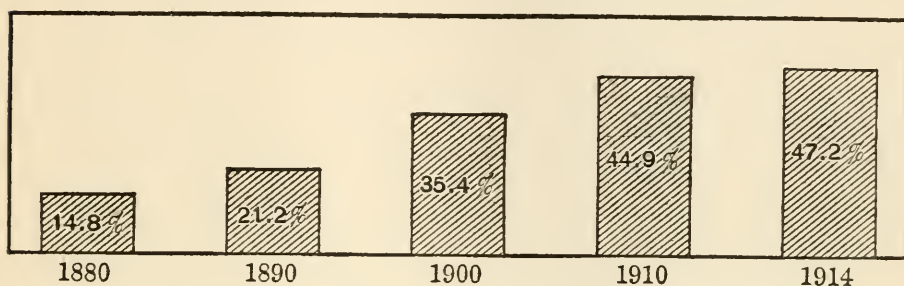
ucts are high the farmers are encouraged to make every effort to produce and market big crops, while when prices are low and transportation costs high the reverse is the case. Because the exportation of foodstuffs in 1914 was 21 per cent less than in 1900, we are not justified in coming to the conclusion that we are approaching the point at which we can no longer provide a great surplus of foodstuffs for export. The astounding increase in the exportation of foodstuffs since 1914 in response to the higher prices and greater demand caused by the World War shows that the United States may still be looked upon as the granary of the world. The difficulty of procuring farm labor, wasteful and expensive methods of marketing farm produce, combined with other factors, resulted in discouraging increased production of foodstuffs, but the general rise in prices in 1915 and later put the farmers on their mettle and they poured forth unprecedented quantities of these commodities.

The imports of the period between 1900 and 1914 show changes similar to those found in the exports. The great expansion in manufacturing naturally created a greater demand for raw materials. Those which it was found necessary to import in great quantities were hides and skins, wool, raw silk, the textile fibres (flax, hemp, jute, sisal), india-rubber and gutta-percha, and tin. The importation of such materials comprised 33.4 per cent of the total imports in 1914 as against 32 per cent in 1900, and 12.7 per cent in 1870. Finished manufactures occupied the same relative position in 1914 as in 1900, constituting 24 per cent of our imports in both years.

Relatively the importation of foodstuffs decreased during the period, though their value increased from \$231,000,000 in 1900 to \$476,000,000 in 1914. As late as 1890 foodstuffs constituted a third of all imports; by 1914 they had fallen to one-fourth the total. The importation of foodstuffs per capita changed little; even as far back as

1870 we imported \$4 per capita; in 1914 the per capita importation of foodstuffs was \$4.75. The increase per capita was more than offset by the rise in prices. In the period between 1870 and 1900 the population doubled; that is, it increased 100 per cent. In the same period the importation of foodstuffs increased only 54 per cent.

It is only since 1900 that the importation of foodstuffs has increased out of proportion to the growth in population.

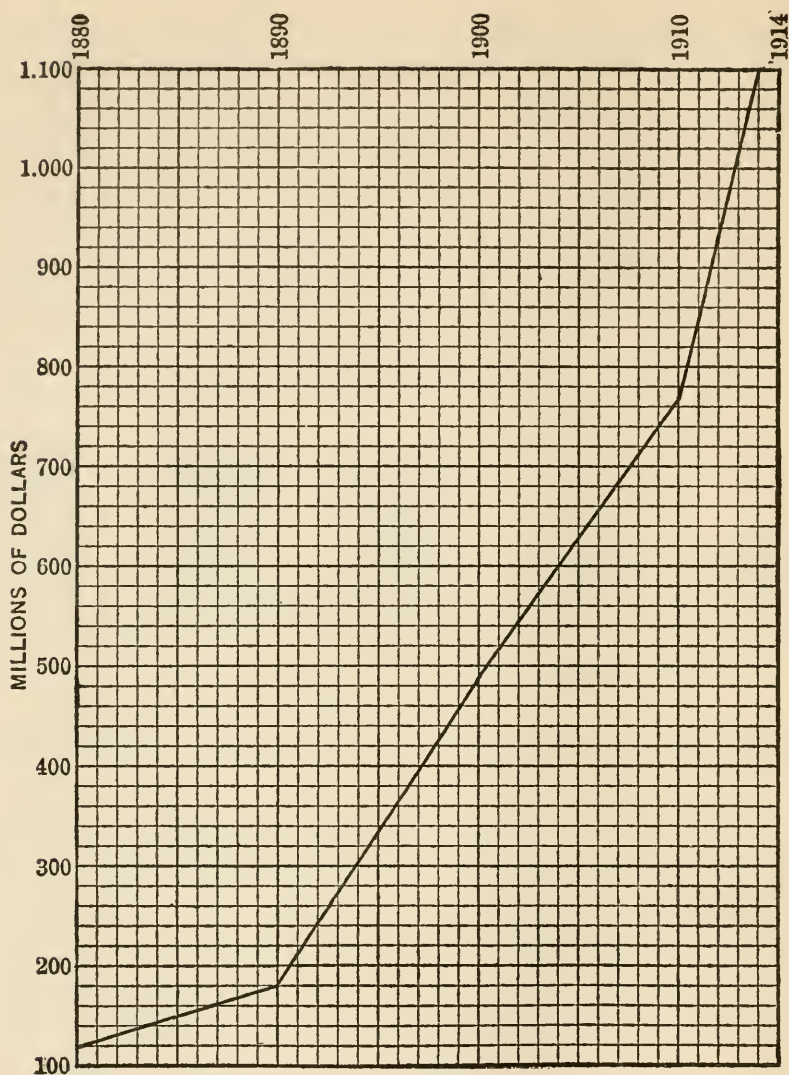


INCREASE IN UNITED STATES EXPORTS OF MANUFACTURES,
1880-1914

Showing the percentage manufactures formed of all exports at different periods

This is due not to a decrease in the production of foodstuffs for home consumption, but to an increase in the use of such tropical and semitropical products as tea, coffee, cocoa, sugar, fruits, and nuts. For instance, our consumption of raw sugar rose from 40 pounds per capita in 1880 to 50 pounds in 1890, and to 59 pounds in 1900, and 89 pounds in 1914.

Summary.—The foreign trade of the United States increased from \$152,000 in 1810 to \$4,258,000,000 in 1914, or about twenty-eight fold. In the same period the population increased from 7,200,000 to 98,200,000, or about fourteenfold. Our foreign trade, then, has increased at twice as great a ratio as our population, the per capita increase being from \$21 in 1810 to \$43 in 1914. Between 1914 and 1918, under the stimulus of the World War, our trade attained enormous proportions, but since many con-



INCREASE IN UNITED STATES EXPORTS OF MANUFACTURES,
1880-1914

Showing the increase in value of our exports of manufactures, expressed in millions of dollars

ditions of that trade were abnormal the returns for that period do not afford reliable data for analysis.

The change in the character of our foreign trade is quite as important as the increase in volume and value. Great

changes have taken place, the most striking being the remarkable position manufactured wares have attained in the export trade, especially since 1900. The increasing importance of such raw materials as rubber, wool, hides and skins, and textile fibres in our imports further emphasizes the position manufactures occupy in our trade relations with other countries.

While we are still a great agricultural nation, manufacturing has so forged ahead that since 1914 about one-half of our exports has been manufactured articles. This change is of the utmost importance, for it has created new problems in regard to the marketing of our surplus products in foreign countries; it has brought us into direct competition with the other great manufacturing nations; it has given us a new interest in the extension of our trade with the less-developed countries, such as Chile, Argentina, Brazil, Russia, Australia, South Africa, and Canada, all countries that import great quantities of manufactures and export foodstuffs and raw materials; it has made more highly organized and more aggressive methods in foreign trade essential to our success; it has made our position in foreign trade one of fundamental importance to every State and to every citizen.

While it is true that the exportation of manufactures has increased wonderfully in every great commercial nation, in no case has the progress been so great as that of the United States. This is shown by the following table, which gives the exports of manufactures for different

Country	1892	1912	Increase in millions	Per cent increase
United States.....	\$183.1	\$1,020.4	\$ 837.3	457.3
United Kingdom....	827.0	1,873.6	1,046.6	126.5
Germany.....	463.8	1,430.1	966.3	208.3
France.....	362.6	756.1	397.5	108.5
Austria-Hungary...	171.9	359.8	187.9	109.9

countries in 1892 and in 1912, in millions of dollars, with the per cent of increase for the period.

The rate at which our exportation of manufactures increased is far ahead of that of any of the other large manufacturing nations. In actual increase the United Kingdom led all nations, with Germany second and the United States third.

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CHAPTER III

THE WAR TRADE OF THE UNITED STATES

New Grand Totals in Both Exports and Imports.—The first effect of the World War was to cause a reduction in both exports and imports, due to dislocation of shipping routes, to the withdrawal of ship tonnage, to unsettled business conditions, and to the general turmoil occasioned by the outbreak of the war. But in a few months came the unending demand of the belligerent nations for war materials and foodstuffs, and of the neutral nations for foodstuffs and other commodities which they had formerly secured from the belligerents.

The demand rose higher and higher each month as the war progressed, causing our foreign trade to break all records in volume and value, especially on the export side. The imports, too, expanded greatly after 1915, though their expansion was far less than that of the exports.

The following table gives the value of exports and imports for the fiscal years of 1914-18, the value being expressed in even millions, with six places omitted:

Year	Exports	Imports
1914.....	\$2,364	\$1,894
1915.....	2,768	1,674
1916.....	4,333	2,198
1917.....	6,290	2,660
1918.....	5,920	2,946

Analysis of Exports.—The gain in value of the exports is seen to be enormous, the totals for 1917 and for 1918 being between two and a half and three times the total for

1914, the last pre-war year. The decrease in exports in 1918 as compared with 1917 was due to conditions arising from our own participation in the war. There were also great quantities of war materials exported by the government that do not appear in statistics.

Several factors are to be considered in evaluating this war trade. First, the totals were greatly exaggerated owing to the constantly rising prices. The increase in the prices of the leading articles of export in 1918 over those for 1914 ranged from 40 per cent to 300 per cent. For instance, the price of wheat increased over 100 per cent, of steel products fully 70 per cent, of raw cotton over 50 per cent, of packed meats about 50 per cent. The effect of higher prices in our import totals will be considered in some detail later.

Second, the trade was abnormal in character as well as in value. While the gain in volume of some articles was tremendous, other articles either gained little or actually fell off. For instance, raw cotton exported fell from 9,165,000 bales in 1914 to 8,426,000 bales in 1915, to 5,955,000 bales in 1916, and to 5,576,000 bales in 1917, though the price greatly increased.

Agricultural implements exported in 1914 were valued at \$31,965,000. This fell to \$10,304,000 in 1915; with partial recovery and increased prices the total in 1917 reached only \$26,553,000. Cash-registers decreased in number from 47,882 in 1914 to 10,271 in 1917. Art works fell from \$1,415,000 in value in 1914 to \$395,000 in 1917. Hops is another agricultural product that met small demand during the war, the export falling from 24,262,896 pounds in 1914 to 4,824,876 pounds in 1917.

These occasional setbacks, however, dwindle into insignificance when the advances in most lines are considered, especially in those articles that may be classed as war material. The part such commodities played in our export trade in manufactures is shown by the following

table, which gives the totals in millions of dollars of exports in specified materials for the four war years, 1915-18, and for the preceding four-year period.

Article	Value 4-year period 1915-18	Value 4-year period 1911-14
Explosives.....	\$1,716	\$ 21
Chemicals.....	662	105
Zinc and its manufactures.....	158	4
Brass, mostly shells.....	622	20
Firearms.....	160	13
Metal-working machinery.....	229	32
Wire.....	140	42
Tin-plate.....	106	18
Automobiles, including trucks.....	420	97
Total for period.....	\$4,213	\$352

The table contains only a few of the articles exported largely if not entirely for war purposes. Great quantities of leather manufactures such as boots and shoes and harness and saddles, of cotton and woollen cloth and of army uniforms, implements and tools of every variety, and a score or more of other articles were added to the war store. In addition to all these are the foodstuffs, the demand for which was doubled and trebled by the war.

The table helps to explain why manufactures exported in the four years of the war aggregated in round numbers \$11,000,000,000, being largest in 1917, when they aggregated \$4,000,000,000, or nearly as much as the total export of manufactures for the four-year period preceding the war. Foodstuffs exported in the war period amounted to approximately \$5,000,000,000.

The largest single group in the export trade was iron and steel products, forming about one-fifth of the total exports. These include such war materials as barbed wire, firearms, steel rails, steel sheets and plates, steel billets, and similar articles.

Breadstuffs is the next great item, with such commodi-

ties as meat and dairy products, condensed milk, canned and dried fruits and vegetables and fish, and re-exports of sugar, coffee, vegetable oils, and cocoa important items. Wheat exported in the four-year period, including flour reduced to terms of wheat, aggregated over 913,000,000 bushels.

The Exports by Continents and Countries.—The direction of our export trade shows interesting and important changes. While European countries continued to take the bulk of our exports, the sales to other countries were greatly enhanced. They are of special interest because they consisted more largely of the stable commodities of peace. Sales to Europe in 1917 nearly trebled those of 1914, rising from \$1,486,000,000 to \$4,324,000,000, but falling considerably below this high mark in 1918. Exports to Europe for the four war years totalled some \$13,000,000,000 as against \$6,616,000,000 for the preceding four-year period.

The exports to North American countries show the next largest increase, expanding from \$528,644,000 in 1914 to \$1,163,750,000 in the banner year of 1917. Canada was the largest factor in this trade, as the United Kingdom was in the European trade.

After recovery from the trade depression felt throughout South America in 1915, our exports to that continent rose satisfactorily, so that in 1917 we sold over twice as much to that continent as in 1914.

Exports to Asia expanded from \$113,425,000 in 1914 to \$380,250,000 in 1917, with still larger figures in 1918, Japan taking over one-third of the total. Sales to African countries nearly doubled in the same period, while those to Oceania showed a normal increase.

Considering the different nations separately, we find the United Kingdom continued to be our best customer throughout the war period, purchasing from us merchandise valued at some \$6,500,000,000 in the four years as against \$2,300,000,000 in the preceding four years. Commodities sold

to France in the four years were valued at \$2,900,000,000 as against \$576,000,000 for the four years preceding the war. Italy took over a billion dollars' worth of merchandise during the war as against \$276,000,000 for the preceding four years. Of non-European countries, Canada was by far our best customer, her purchases from us for the four years aggregating \$2,300,000,000, or not far from double those of the four years preceding the war. This placed Canada third in our list of customers, with the United Kingdom first and France second. Our trade with Russia was enormously increased in 1916 and 1917, but practically ceased in 1918. Japan proved an excellent market during the war period, taking a total of \$523,000,000 worth of merchandise. The growth of commerce between the United States and Latin America expanded steadily during the war. This will be considered later.

Analysis of Imports.—With the greater demand for manufactured products for export came the need of larger quantities of raw materials for use in our industries. These, with tropical food products, are responsible for the expansion of our imports. By articles the leading imports of the war period were sugar, rubber, wool, raw silk, hides and skins, coffee, copra, chemicals, tin, and fibres.

While the increase in value of the imports was large, a comparison of quantities shows that the higher prices prevailing during the war are largely responsible for the greater totals. For example, 379,129,000 pounds of wool were imported in 1918 as against 247,648,000 pounds in 1914, the quantity increasing 60 per cent, while the average price per pound increased 150 per cent, or from 21 to 52 cents. The imports of raw silk increased from 28,594,000 pounds in 1914 to 34,846,000 pounds in 1918, and the price per pound from \$3.40 to \$5.30. Imports of copper ore jumped from 112,271,000 pounds in 1914 to 166,654,000 pounds in 1918, the average price rising from 12.1 cents in 1914 to 19.8 cents in 1918.

Some imports which rolled up large totals in value in the later years, really decreased in quantity, notably sugar and hides and skins. Of sugar, 5,061,000,000 pounds were imported in 1914 and only 4,898,000,000 pounds in 1918, though the value more than doubled. The value of the hides and skins imported in 1918 exceeded that of 1914 by over \$11,000,000, and yet the quantity fell from 561,080,000 pounds to 432,516,000 pounds.

A few imports show a falling off in price in the period, as in the case of rubber and coffee, but such exceptions are rare. The statistician of the National City Bank of New York computed the value of 25 of the leading imports for use in manufacturing in the year 1917 at the prices prevailing for the same articles in 1916, 1915, and 1914, and showed that while the 25 articles in question had a total value in the imports of 1917 of \$1,201,595,000, an equal quantity of the respective articles imported at the average price in 1916 would have cost but \$951,371,000; in 1915, \$891,981,000, and in 1914, \$903,008,000. This indicates the necessity of making a liberal deduction in trade totals before making comparisons.

The Continents and Countries from Which We Bought.—Striking changes in the sources of our imports occurred during the war. A relatively smaller proportion came from European countries and a much larger proportion from both North and South America. European imports fell from \$895,602,000 in 1914 to \$411,000,000 in 1918, while those from other countries rose from slightly less than \$1,000,000,000 in 1914 to \$2,535,000,000 in 1918. Expressed as percentages of the total, less than 14 per cent of all imports came from Europe in 1918 as against over 47 per cent in 1914. During the four-year period the value of European imports totalled \$2,253,000,000 as against \$3,376,000,000 in the preceding four years. The shutting off of trade with Germany was a large factor in this change, while the concentration of the United King-

dom, France, Italy, and other nations upon war industries accounted for the balance.

Imports from North American countries totalled \$2,749,-000,000 for the four-year war period as against \$1,428,-000,000 for the preceding four years; those from South America more than doubled in the period as did those from Asia and Oceania, while the purchases from Africa increased even more, being fourfold as large in 1918 as in 1914.

Considering not continents but separate countries, it is important to note changes in the relative positions of the nations in our import trade. The appended table shows this for 1914 and 1918, in millions of dollars.

Country	Imports from— 1914	Imports from— 1918
Canada.....	\$160.6	\$434.2
Japan.....	107.3	284.9
Cuba.....	131.3	264.0
Argentina.....	45.1	195.6
United Kingdom.....	293.6	190.0
Chile.....	25.7	141.0
Mexico.....	92.6	140.6
China.....	39.3	140.7
Brazil.....	101.3	113.5
France.....	141.4	75.6

The gain in the import trade with Canada and with Latin American countries is clearly brought out in the table. From Canada we bought wheat, largely for re-export, copper and copper manufactures, wood-pulp and pulp-wood, flaxseed, cattle, lumber, furs, hides and skins, and wood.

Japan more than doubled her sales to the United States, stepping into the position formerly held by Germany in our import trade. Raw silk and silk manufactures, tea, soya-bean and peanut oil, beans and lentils, camphor, hats and hat materials, chinaware, rice, matting, and cotton manufactures were the leading articles, the single item of raw silk being responsible for about one-half the gain.

The Latin American Trade.—From Cuba the increase was largely due to the higher price of sugar. Other imports were tobacco, molasses, copper ore, hides, iron ore, manganese oxide, and fruits.

The trade with the other Latin American countries, which include all the South American republics, Central America, except British Honduras, Mexico, Cuba, Haiti, Domingo, and the French West Indies, more than doubled on the import side and nearly trebled on the export side. Our imports from these countries, which aggregated \$469,000,000 in 1914, rose to \$1,000,000,000 in round numbers in 1917, a record maintained in 1918. At the same time the exports from the United States to Latin America expanded from \$282,000,000 to \$581,900,000 in 1917 and to \$725,800,000 in 1918. Expressed in percentages of our total trade, we obtained 36 per cent in 1917 and 33 per cent in 1918 of our imports from Latin America as against 24.7 per cent in 1914, and we sold 12.24 per cent of our exports to those countries in 1918, or slightly more than the share in 1914.

Our total trade with Latin America, considering imports and exports together, was about one and three-quarters billion dollars in 1918. The trade of these republics with the world was about \$3,000,000,000 all told in 1918, which indicates that about 60 per cent of this total was with the United States. Until trade channels were changed by the war, many Latin American products went first to some European country and then were purchased by us, while the tendency was for those countries to buy the manufactured products they required from the United Kingdom, Germany, or France. During the war the indirect trade between the United States and Latin America was stopped, and more and more of our products found a market there. While the hold that Germany had upon Latin American trade has been greatly exaggerated, the shutting off of that trade has, nevertheless, had a decided effect in increasing our trade.

The larger totals of our trade with our American neighbors are not so important as are the closer trade relations that have been established. Many products from the United States have been sold to Argentina, Chile, Brazil, and the other republics which had never found a market there before. This promises better trade in normal times. Clearer understanding of the needs and conditions prevailing in South America has been gained by these transactions, and this opens the way to closer trade relations and to enlarged sales. From Latin America we procure essential raw materials; in Latin America we find a market for surplus manufactures in which there is keen competitive selling. Hence our interest in trade with that part of the world. Conversely, Latin America finds in the United States the best customer for those raw materials produced in superabundance, and is able to obtain from the United States the manufactured articles not produced there. Since the United States has become the great creditor nation of the world, with the means of making further foreign investments where safety and fair returns are assured, it is to us that the undeveloped countries of the world such as the republics in question are naturally looking for assistance in developing the rich natural resources they possess. It is for these reasons, among others, that a largely increased trade with Latin America is predicted.

The Re-export Trade.—The United States has not made the same effort to develop a trade in the re-export of foreign commodities as have the other leading commercial nations. Our pre-war exports of foreign merchandise amounted to about \$35,000,000 annually. This increased to \$62,884,000 in 1917 and to \$81,059,000 in 1918. In contrast to this is the re-export trade of the United Kingdom, amounting normally to about \$500,000,000 annually; of France, ranging from \$350,000,000 to \$400,000,000, and of Germany's re-exports, totalling from \$100,000,000 to \$190,000,000 before the war.

Aside from the profit made by those directly concerned in the re-export trade, there is the further advantage resultant from the natural reciprocal movement in trade. The countries which find a ready market for their wares in the United States quite naturally look to us for those commodities which they import.

The advance in our re-export trade between 1914 and 1919 was largely in Latin American products, many of which were diverted to the United States because of the lack of direct shipping facilities to British or Continental ports. The statistics for re-export trade do not include goods from Porto Rico, Hawaii, or Alaska, but do include products from the Philippines, which are not a customs district of the United States. Neither do they include the exports of merchandise made from imported raw materials, which rose from \$75,000,000 in 1914 to \$250,000,000 in 1916. Such goods consisted largely of the manufactures of leather, rubber, silk, and wool.

The leading items in our re-export trade in 1917 with their value in millions of dollars were as follows:

India-rubber and gutta-percha.....	\$7,791,000
Coffee.....	6,880,000
Chemicals, drugs, and dyes.....	6,497,000
Hides and skins, other than furs. . .	5,244,000
Fibres, as flax, hemp, jute, and sisal.	4,999,000
Fruits and nuts.....	3,478,000
Meat and dairy products.....	1,611,000

Other large items of foreign merchandise regularly re-exported in large quantities are rice, cocoa, raw and manufactured cotton, fish and shell-fish, iron and steel and their manufactures, vegetable oils, raw silk, spices, sugar, tobacco, wood and its manufactures, wool, and art works.

A recent article in *Commercial America** thus describes our re-export trade:

* *Commercial America*, June, 1915, p. 25.

Practically the entire world is drawn upon for the many lines of foreign merchandise that are shipped from the United States. Horses are imported chiefly from Mexico and Canada, and exported not only to those countries, but also to various countries in Europe. About 18,000,000 pounds of foreign rice is exported; it is obtained chiefly from the Netherlands, China, and Hongkong. The United States exports annually about 10,000,000 pounds of coffee, obtained in most part from South and Central American countries. Henequen, which is exported from the United States chiefly to Canada, Belgium, and other European countries, is brought mostly from Mexico. The india-rubber which is exported from this country comes chiefly from Brazil and the British West Indies, and is exported largely to Canada. The foreign tobacco which leaves the country, chiefly consigned to the Netherlands and Canada, is produced principally in Cuba, Turkey, and the Dutch East Indies. The one and a half million pounds of block tin which are exported to Canada represents less than $1\frac{1}{2}$ per cent of the total imports of that article.

Trade of 1919.—Our trade in 1919 was the largest, as measured by dollars, in our history. The exports for the fiscal year totalled \$7,225,000,000, as against \$5,920,000,000 in 1918. The imports aggregated \$3,096,000,000, as against \$2,946,000,000 in 1918. The figures for the calendar year of 1919 are still larger, bringing the exports up to \$8,000,000,000, in round numbers, and the imports to \$4,000,000,000. That excessively high prices are largely responsible for the enormous totals, overtopping those of 1918 or of any previous year, must be kept in mind, but the fact remains that the volume of both exports and imports was huge. In this trade Europe was by far the largest factor.

On the face of it, this is highly satisfactory, but there are vital factors to be considered and pivotal problems to be solved, if our trade pre-eminence is to be permanent.

First, there is the question of prices. During 1919, as throughout the war period, exporters were able to obtain almost any price they chose to place upon their goods, provided they could supply the insistent demand for our

commodities. The United States was the one country where the manufactures, the raw materials, the foodstuffs, so sadly needed by the war-torn countries of the world, could be obtained. Hence, these were purchased in abnormal quantities at abnormal prices. With the restoration of the industrial life of Europe, world-wide competition is being restored. American products are again coming into the position of having to sell on their merits at the same prices as asked elsewhere. If the competing countries are able to keep down the cost of production and undersell us, they may be depended upon to do so.

The pessimistic view is that this can be done because labor costs have increased so greatly in the United States. It is doubtful, however, if the European countries will have much the advantage of us in this respect. In January, 1920, reports of wage scales in the leading industries of the United Kingdom revealed an increase of wages over those antedating the war of from 100 per cent to 300 per cent, with an upward tendency in every branch of industry.

With large-scale production and improved equipment and other capital investments already paid for out of the profits of the war period, the manufacturers of the United States should be in a position to compete in both quality and price with those of any other nation.

A question that cannot be solved by the individual manufacturer is that relating to the huge balance of trade in our favor. In the five-year period from 1915 to 1919, inclusive, the trade balances in favor of the United States aggregated over \$14,000,000,000. In the three fiscal years of 1917, 1918, and 1919 the exports exceeded the imports by approximately \$9,000,000,000. These balances were liquidated before our entrance into the war by the return of American securities held abroad, by private loans made in America, and by the exportation to us, from the countries having adverse trade balances, of over \$1,200,000,000 in gold.

In the last three years of the period the merchandise balance due the United States was met by means of loans made by the government of the United States to the Allied nations, aggregating \$10,000,000,000 in round numbers. In 1919 alone our loans to foreign countries exceeded \$1,750,000,000. After the making of such loans was discontinued on the part of our government, private loans and credits were extended.

In this way the countries of Europe were enabled to buy from us vastly greater quantities of goods than they sold to us. Hence, we piled up an enormous balance, designated as a favorable one.

The Outlook for Future Trade.—That the continuation of such a condition is neither possible nor desirable, except for a very limited period, is evident. Europe is already deeply in our debt; the piling up of greater debtor balances can be only a handicap to her future prosperity. It is generally conceded that European purchases from us will diminish as soon as normal industrial conditions have been restored. The unfavorable condition of exchange, which makes goods purchased in the United States still more expensive to European customers, is a factor that tends to bring about a balance in the trade relations between the nations involved.

It is plain, then, that our exports cannot continue to be double our imports in value. The nations buying from us must pay in gold, in goods, in services, or in securities. The payment of enormous trade balances in gold is impossible, as shown in the chapters on foreign exchange and on the balance of trade. There is not enough gold in Europe to pay such balances as prevailed in 1918 and 1919 for a period of years. This is the reason for the embargo on the exportation of gold that has been laid by many countries.

If we are to sell to Europe and elsewhere as heavily as in the past, we must adopt one or more of the following measures:

1. Take a larger volume of European exports, so that our imports from Europe will more nearly balance our exports to Europe.

2. Invest freely in foreign securities, either through government loans or privately.

3. Make long-term credit arrangements with European and other customers, so as to tide over the reconstruction period.

4. Roll up tourist expenditures in Europe, as well as other bills for services, such as bankers' commissions, shipping in foreign bottoms, etc. Such items before the war offset a goodly percentage of our exports.

In general, then, neither the United States nor any other nation can hope to have an unduly large share of the gold in the world, an unwieldy excess of sales over purchases, an excessive amount of securities and other evidences of debt either from other governments or from individuals of other nations, and a preponderance in shipping and financial transactions.

International trade means exchange between nations. If we wish to sell more than we buy abroad, we must decide what we are willing to take for our surplus exports. While foreign securities seem to be the best answer during the period of reconstruction following the war, there is a limit even to this method of offsetting our trade balance.

It has been predicted in not a few quarters that before many years the United States will fall into the position so long occupied by the United Kingdom, in which its exports fall short of its imports, the excess of imports being offset by interest received on securities held abroad and by other credits arising from international transactions. This would make its credits in some items offset its debits in other items, a condition that must prevail in all but abnormal periods.

CHAPTER IV

EXPORTS OF THE UNITED STATES—ARTICLES AND DESTINATION—TRADE OPPORTUNITIES

Nature of Our Exports.—In its wealth of natural resources the United States is the most richly endowed country in the world. With great productivity and comparatively low density of population, it has a large surplus of food-stuffs and raw materials for export. Since it has become the leading manufacturing country in the world, the exports of manufactures, as previously shown, have become of tremendous importance. While we find a wide variety of exports, especially among manufactures, a study of the statistics compiled by the Bureau of Foreign and Domestic Commerce reveals the fact that a comparatively few commodities make up the greater part of our immense export trade. These articles are, in the order of importance as expressed in value, cotton, iron and steel manufactures, meat and meat products, wheat and corn (including flour), refined and crude petroleum, copper manufactures, wood manufactures, and leather manufactures. We find these eight classes of commodities repeated time and again as our leading exports to widely scattered countries, differing only in the proportion which they bear to the total.

The following table gives the average value of our eight leading exports for the five-year period embraced between 1910 and 1914:

	Exports in millions of dollars
Cotton.....	\$550
Iron and steel manufactures.....	247
Meat and meat products.....	144
Wheat, wheat-flour, and corn.....	131
Refined and crude petroleum.....	120
Copper manufactures.....	118
Wood manufactures.....	95
Leather manufactures.....	57

Cotton.—The place occupied by cotton in both our domestic and foreign commerce is of paramount importance. Next to food, clothing is the greatest need of mankind, and it is cotton that, broadly speaking, clothes the world. In comparison with cotton, wool, silk, and all other textiles occupy a minor position. More than twice as much cotton is used as wool and all other textiles. The use of this commodity has increased fortyfold in the past century, while wool has increased only fivefold and flax twofold. As the processes of manufacturing have been improved, cotton fabrics and knit goods have become cheaper and more attractive, and thus their use has been greatly enlarged. Cotton manufacturing has become one of the leading industries of the United States; it has long been of the first importance in the United Kingdom, which annually looks to this country for millions of pounds of cotton to supply her mills and factories. Germany and France and other manufacturing nations have likewise depended upon us for great quantities of raw cotton, the manufacture of which affords employment to thousands of workers. A complete failure of our cotton-crop for even one year would cause industrial paralysis and great distress both at home and abroad. The importance of cotton as a world commodity is indicated by the following table, which gives the production, in millions of bales of 500 pounds each, of the leading countries for stated years.

Countries	1914-15	1913-14	1912-13	1911-12	1910-11
United States.....	14.76	14.49	13.94	15.68	11.80
India.....	3.33	4.59	3.46	3.10	3.23
Egypt.....	1.20	1.43	1.41	1.39	1.41
Brazil and all others.....	.24	.38	.37	.34	.40

For the five-year period just considered, the United States supplied three-fourths of the cotton production of the world. It is interesting to note that while our exportation of cotton

steadily increased from the Civil War up to the first year of the World War, or until 1915, approximately two-thirds of the crop was regularly exported each year. The increased exportation nearly kept up, until 1915, with the increased production, leaving one-third of the crop for use at home. Our home consumption now exceeds 6,000,000 bales annually, which equals the entire consumption of the continent of Europe, and is one-fourth greater than that of the United Kingdom, which for years led the world in the consumption of raw cotton. In 1867, 1,401,000 bales were exported; twenty years later the number had increased to 4,301,000 bales; while in 1897 the total reached 6,124,000 bales.

The following table gives recent statistics:

Year	Production 500-lb. bales	Export 500-lb. bales	Per cent exported
1910.....	10,001,000	6,492,000	64.9
1911.....	10,608,000	8,026,000	69.1
1912.....	15,693,000	11,081,000	70.6
1913.....	13,703,000	9,199,000	67.1
1914.....	14,156,000	9,256,000	65.5
1915.....	16,135,000	8,931,000	55.3
1916.....	11,192,000	6,406,000	57.2
1917.....	11,450,000	5,964,000	52.1
1918.....	11,302,000	4,587,000	40.6

Since 1914 we have retained a larger percentage of the crop for manufacturing in our own mills. Hence, our exports of manufactured cotton increased from \$51,467,000 in 1914 to \$136,300,000 in 1917, the increase being in quantity as well as in value, though the higher prices helped to make the difference. Our consumption of raw cotton in 1918 was 7,555,000 bales.

In the years 1910-14 the value of our raw cotton exports averaged \$550,000,000. It has been shown that our pre-war favorable balance of trade was due to the quantity of cotton sold each year to the merchants and manufacturers

of foreign countries. Our cotton exports regularly yielded sufficient returns to more than offset our purchases of sugar, coffee, tea, cocoa, spices, and tropical fruits. Stated in another way, our cotton exports may be said to have offset before the war the total charges against us for interest on American securities held abroad, for our tourists' expenses, our freight charges due foreigners, and the money sent abroad by immigrants living in this country. It is cotton that keeps our agricultural exports in the lead and that insures the United States continued supremacy as a source of raw materials.

That a steady demand for raw cotton from the United States will continue for years is practically an assured fact. Not only the United Kingdom, Germany, France, and other European countries, but also Japan and even China must continue to look to America for the major supply of raw cotton for their mills. However, with the rapid expansion of our own cotton-manufacturing industry, we may expect to see a smaller percentage of our cotton-crop shipped abroad, and our importation of finished cotton decrease. In other words, we will discontinue in a measure the custom of shipping our raw cotton to Europe and buying back the finished product made from that cotton.

Iron and Steel Manufactures.—Iron and steel manufactures have long held the foremost place in our manufactured exports. This was won by superiority of the product, promptness in the execution of orders, adaptation to the demands of the market, and a thorough and consistent sales campaign, carried on, for the most part, by corporations having an unlimited supply of capital. The articles classed as iron and steel manufactures include iron and steel rails, structural iron and steel for bridges and buildings, locomotives and other railroad equipment, steam and gas engines, boilers, gas, mill, mining, and oil-well equipment, steel wire for fencing and other purposes, steel cables and chains, ship-plates and anchors, tools and tool steel, office

safes and other steel office equipment, and machinery of every description.

The exports of this class of manufactures averaged \$247,000,000 in the five-year period ending June 30, 1914. The demand for war materials, coupled with higher prices, caused the value of such exports to shoot up to \$1,133,746,000 in 1917, with only a slight falling off in 1918. The after-war demand for structural material and other iron and steel manufactures kept the value of this class of exports well over the billion-dollar mark in 1919.

The expansion of our manufacturing facilities during the war placed us in a position to meet any future market demands for this as for other class of manufactures. Moreover, the fact that we supplied these and other manufactures to markets that had formerly been supplied by Europe has created new and valuable trade relations which presage future expansion.

Meat and Meat Products.—Meat and meat products are still a much more important export than is generally realized. The fact that few cattle are now exported on the hoof, that method having been almost entirely displaced by the extensive use of refrigeration in the meat-packing industry, has led to a rather wide-spread belief that our exports of meats have practically ceased. As a matter of fact, despite our increase in population, these exports averaged in the five-year period between 1910 and 1914 nearly the same as those of the period 1895–99, though they were not as heavy as those of the intervening years. The value of the exports of meat and meat products for five-year periods is shown below:

Period	Exports in millions of dollars
1895–99.....	\$142
1900–04.....	181
1905–09.....	183
1910–14.....	144

Statistics and estimates given out by the Department of Agriculture show that the number of cattle increased from 43,902,414 in 1900 to 58,329,000 in 1915, which is a gain of nearly 33 per cent, or practically the same gain as in our population. The highest number of cattle recorded was 72,533,996 in 1907. Swine increased from 37,079,000 in 1900 to 68,047,000 in 1916, or 85 per cent. The increase in the number of sheep in the United States has not kept pace with the growth in population. The number of sheep in 1900 is given as 41,883,000; in 1915 they numbered 49,956,000, but this is far below the number for the year 1903, which was estimated at 63,964,000. There is a fluctuation in the number of farm animals from year to year, occasioned by an abundance or by a lack of feed, by variations in prices, and by many other conditions. The fact remains that our meat exports promise to be of importance for many years to come.

The war trade in meat and its products showed an immense gain, reflecting higher prices and greater demand. The value of such exports during the period of the war is shown in the following table:

Fiscal year	Exports in millions of dollars
1915.....	\$206
1916.....	267
1917.....	354
1918.....	594
Average.....	\$355

Still larger exports were recorded in 1919. The higher standard of living throughout the world has had its effect in maintaining the demand for meat and meat products. Thus a market for any surplus we may produce seems assured.

Wheat.—While we unfailingly have a great quantity of wheat for export, the amount marketed abroad each year

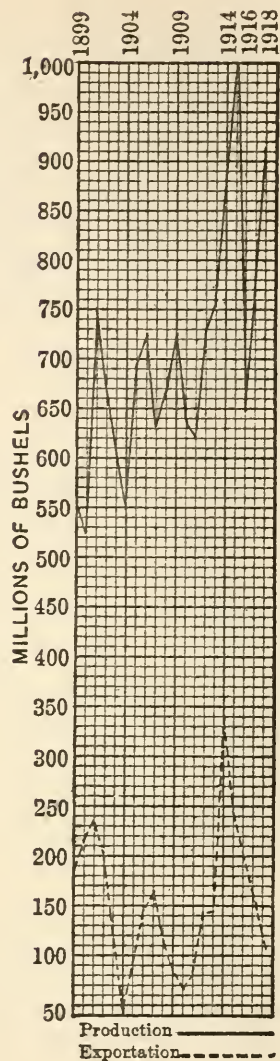
shows great fluctuations, due to changing crop conditions, difference in prices, and in the international demand. The following table shows the production of wheat, the exports, and the percentage of the crop exported each year for the period between 1906 and 1918, inclusive. The figures are for millions of bushels and include flour.

Year	Production	Exportation	Percentage exported
1906.....	735	146	19.9
1907.....	634	163	23.8
1908.....	664	114	17.1
1909.....	737	87	11.8
1910.....	635	69	10.9
1911.....	621	79	12.8
1912.....	730	142	19.5
1913.....	763	145	19.0
1914.....	891	332	37.3
1915.....	1,025	243	23.7
1916.....	636	203	31.9
1917.....	636	133	21.05
1918.....	917	287	31.3

There is a gratifying increase during the thirteen years, especially on the side of production. The average for the first half of the period is about 671,000,000 bushels; for the last or seven-year period the average is 800,000,000 bushels.

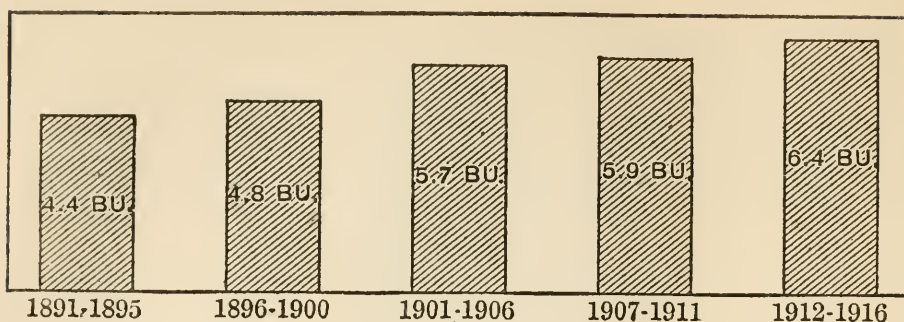
The 1919 wheat-crop was slightly larger than that of 1918. It is to be noted that in the table of production and exportation the exports of wheat for each year are placed with the crop of that year, although such exports actually took place after the close of the fiscal year. For instance, the 132,000,000 bushels of wheat exported from the 1917 crop were not sent out of the country until the following fiscal year.

While the table shows that the United States is increasing the production of wheat to meet the demand, it must



ANNUAL PRODUCTION AND EXPORTATION OF WHEAT FOR THE UNITED STATES, 1899-1916

be recognized that the continuance of this satisfactory condition must depend upon an adequate supply of farm labor at fair wages being available, and upon the price of wheat remaining high enough to encourage production.



WHEAT CONSUMPTION PER CAPITA IN THE UNITED STATES
Five-year averages, 1891-1916

Petroleum, Copper, Wood, and Leather Manufactures.—Of the other exports enumerated, refined and crude petroleum, controlled and exported by a few corporations, have increased in value because of the wider use for these products occasioned by the improvements in the internal combustion-engine and by the most thoroughgoing selling organization in existence. Copper, wood, and leather manufactures exported reflect our skill in large-scale production, whereby the best modern machinery is made use of and the best product possible is turned out at a cost enabling us to meet the competition of any country in the world.

Destination of Our Exports.—It is important to note carefully the continents and nations that afford us the best markets. It is to be noted, however, that we do not sell all of our exports directly to the country consuming them, as that we do not buy all of our imports from the country producing them. There is a group of nations that have long made it a practice to act as middlemen in the trade of the world, buying from one country and selling to another. The United Kingdom, Germany, Belgium, and the Netherlands had, before the war, an immense re-export trade. These nations through their long-established trade and steamship connections carried on an enormous trade with Africa, Asia, Australia, South and Central America,

and with the islands of the sea, in which they acted principally as middlemen. England is often referred to as a nation of merchant traders, because of the enormous business she transacts between other nations. Before the war we bought quantities of Brazilian rubber, Australian wool, South African diamonds, Central American and Mexican mahogany, and many other articles from England, Germany, or the Netherlands, and sold to those trading countries our products, a considerable part of which eventually reached the countries with which we had very little direct trade.

The destination of our exports to the different grand divisions in 1900 and in 1914, with the percentage each took of our total exports, is shown in the following table:

Continent	Our exports 1900	Percent of total 1900	Our exports 1914	Percent of total 1914
Europe.....	\$1,040,000,000	74.6	\$1,486,000,000	62.8
North America.....	187,000,000	13.5	528,000,000	22.4
South America.....	39,000,000	2.8	124,000,000	5.3
Asia.....	65,000,000	4.6	113,000,000	4.8
Oceania.....	43,000,000	3.1	83,000,000	3.5
Africa.....	19,000,000	1.4	28,000,000	1.2

Europe.—While Europe bought nearly two-thirds of our exports in 1914, the percentage of finished manufactures sold to that continent constituted not quite 34 per cent of our total export of manufactured products. On the other hand, Europe afforded a market for nearly 84 per cent of our crude materials for use in manufacturing and for nearly 70 per cent of our foodstuffs exported. The total exports to Europe increased from a little over a billion dollars in value in 1900 to nearly a billion and a half dollars in 1914, but this increase was not proportionally as great as that to North American countries, particularly to Canada, or to South America. This is because we extended the sale of our manufactures to newer and less-developed countries.

Since the European nations, especially the United Kingdom, Germany, France, and Belgium, are the centres of the manufacturing industry of the world, they furnish excellent markets for our surplus production of raw materials and foodstuffs, but cannot be looked upon as affording opportunities for the extension of finished manufactures in the same proportion as do such rapidly developing countries as Canada, Argentina, Chile, Brazil, and Australia. This does not mean that Europe is not an important market for our manufactures, for it is, of course, by far the best one, but it indicates that the percentage of increase in the sale of finished manufactures will most naturally be greatest in the countries in which manufacturing is little developed and in which the natural resources are being most rapidly developed. This consideration is important, for it explains why such countries as those embraced in Latin America, in Oceania, and in other undeveloped regions are being given so much attention by those most interested in the extension of our foreign trade. Russia is in the same category as the other countries mentioned. This marvellous country possesses boundless resources; there has been during the past decade a remarkable awakening there, and with the establishment of a settled government and the return to normal political and industrial conditions, a revival of trade may be expected. Russia thus affords great potential possibilities for the building up of mutually beneficial trade relations with the United States, as well as with other great manufacturing countries.

North American Countries.—Our trade with the neighboring countries in North America is increasing rapidly. Canada is our third best customer among the nations, taking each year more and more of our surplus products, especially those manufactures for which we are seeking a market. Mexico's trade is mostly with the United States, from which it purchases iron and steel manufactures, notably machinery and equipment for its mining and other

industries, and other manufactures. While the trade of Central America is not large, we are selling there in increasing quantity such manufactures as tools, hardware, machinery, and textiles. Cuba is being developed largely by American capital, which means that the development material is obtained in the United States. Every North American country is experiencing an era of expansion, which makes their trade promise well for the future.

South America.—The ten Latin American republics of South America are rich in natural resources that have only recently received the attention that is their due. The United Kingdom and Germany early developed trade relations with these countries, and they have supplied them with a large part of their imports. In recent years the United States has expanded its trade to the south. With the establishment of closer trade relations, more direct transportation facilities, and a better understanding of the mutually beneficial relations possible between the two Americas, the trade is developing at a most encouraging rate. Our present trade with South America is much larger than that existing before the World War, and it is generally conceded that our exporters will be able to hold most of it. The Panama Canal will eventually be an important factor in binding the two Americas together. As railroad building and other development projects increase, the demand for structural iron and steel, machinery of all kinds, and staple manufactures will be felt throughout the world, and the United States will be called upon to supply its share. The branch banks now being established by American bankers and the readiness we are showing to invest in South American enterprises are two factors that are stimulating the trade between the two continents. Our trade with the leading countries of South America is discussed in some detail in another chapter.

Asia.—Our direct export trade with Asia is developing very slowly. The United Kingdom controls a large part

of the trade with India and other British possessions. Japan is rapidly developing manufacturing, and supplying not only its own needs but also a considerable portion of those of China and other neighboring countries, especially for coarse cotton goods. Our trade with Japan and China is of importance; that with the rest of Asia is still small. Our exports to Asia include those typical American manufactures that find a market in every country in the world, such as machinery, railroad equipment, office supplies and equipment, and hardware. Cotton goods are also sold there in considerable quantity. Flour, meat products, cotton, and petroleum are the other products finding the readiest market.

Oceania.—Australia and New Zealand are two countries that are rapidly increasing their production and their purchasing power. Our exports to these countries nearly doubled between 1907 and 1914. In 1916 there was an unprecedented expansion of our trade with Australia, which purchased goods valued at nearly \$60,000,000 from us that year as against \$45,000,000 worth in 1914. In the three-year period from 1917 to 1920, still larger totals were rolled up, largely due to higher prices. Our own island possessions are likewise proving a better market for our merchandise each year. Manufactured goods in wide variety constitute the bulk of our exports to these countries.

Africa.—In general the European countries having colonies or dependencies in Africa control the bulk of the direct trade of that continent. In 1915 our exports to Africa amounted to only \$28,410,000. This was nearly doubled in the year 1918. They consisted mostly of machinery, railroad and mining equipment, hardware, cotton goods, and clothing. Our exports and imports to Africa normally just about balance each other. The African products that we purchase through the United Kingdom, France, Belgium, and other nations undoubtedly

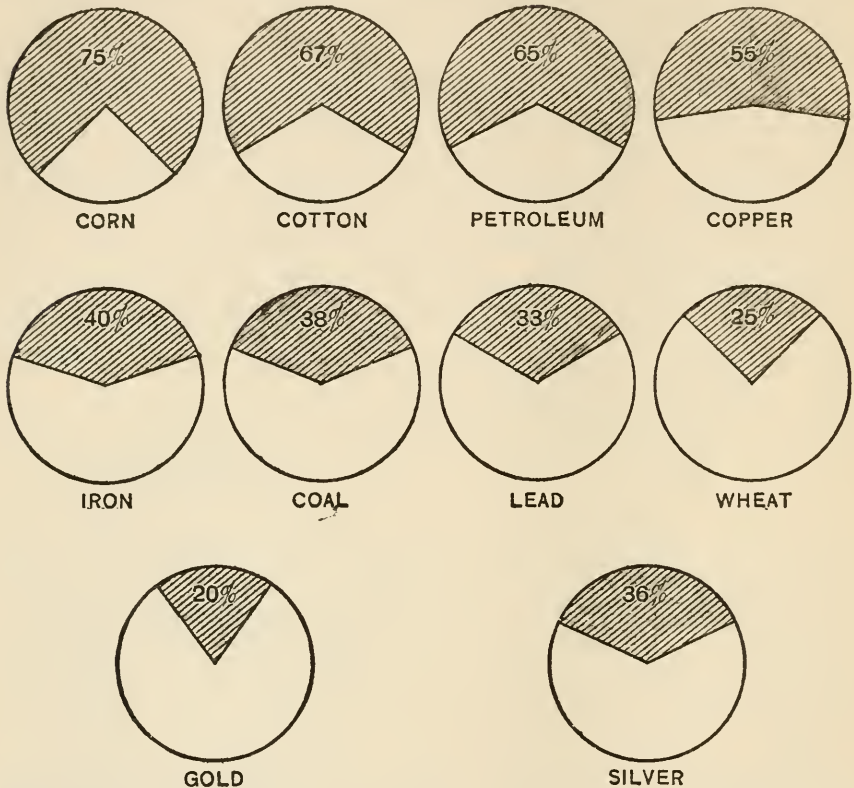
greatly exceed in value those we obtain direct, and our products that eventually find their way to Africa amount to many times the value of those that we sell direct. The establishment of direct trade relations with African countries, especially with South Africa, would result in a decided change in our statistics of trade.

Our Twenty Best Customers.—In general, those nations that have afforded us the best markets in the past can be depended upon to continue to absorb a large volume of our products. Therefore, a close scrutiny of trade statistics in the normal period between 1905 and 1914 is highly important, as they indicate the probable trend of our commerce in future. The following table shows our twenty best customers in the last pre-war year, 1914, with the sales to those countries in 1905:

Country	VALUE OF EXPORTS FROM UNITED STATES	
	1914	1905
United Kingdom.....	\$594,272,000	\$523,398,000
Germany.....	344,794,000	194,220,000
Canada.....	344,717,000	140,530,000
France.....	159,819,000	76,337,000
Netherlands.....	112,216,000	73,298,000
Italy.....	74,235,000	38,740,000
Cuba.....	68,884,000	38,381,000
Belgium.....	61,220,000	38,479,000
Australasia.....	54,725,000	26,353,000
Japan.....	51,206,000	51,720,000
Argentina.....	45,179,000	23,564,000
Mexico.....	38,749,000	45,756,000
Spain.....	30,388,000	17,038,000
Russia.....	31,303,000	17,020,000
Brazil.....	29,964,000	10,985,000
Philippines.....	28,571,000	5,761,000
China.....	24,699,000	53,453,000
Austria-Hungary.....	22,718,000	11,624,000
Panama.....	22,678,000	4,746,000
Chile.....	17,432,000	5,391,000
Denmark.....	14,882,000	15,670,000

The table shows, in the decade preceding the outbreak of the war, a marked increase in our exports to each of these

countries, with the exception of China, Japan, Mexico, and Denmark. Japan's influence in China has become so great that she has been able to deflect a large part of the trade to herself. Unsettled conditions preventing



SHARE OF THE UNITED STATES IN THE WORLD'S PRODUCTION
OF LEADING COMMODITIES

development decreased Mexico's imports. Inadequate steamship service has militated against our trade with Australia and New Zealand. Changes that have taken place in our trade since 1914 are discussed in Chapter III.

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CHAPTER V

IMPORTS OF THE UNITED STATES—ARTICLES AND SOURCES

Nature of Our Imports.—Within the confines of continental United States are produced all of the absolutely essential articles required as food, clothing, and shelter for the population. We are, therefore, in a large measure, a self-sufficient people. But without foreign commerce we would be deprived of many of the luxuries and comforts and some of the necessities of modern life. Our industrial development, too, would be greatly hampered by the lack of many articles used in manufacturing that are supplied by other countries.

Therefore, though we produce a surplus of staple food-stuffs, of raw materials, and of manufactures, there are many commodities which we find it convenient or necessary to import. Our imports may be classified as follows:

1. Those tropical and subtropical products that we are unable to produce at all, or in sufficient quantity to satisfy our wants. In this class are included coffee, tea, cocoa, spices, cane-sugar, rubber and rubber substitutes, and raw silk. Our tropical imports for the single year 1916 were valued at \$1,000,000,000, thus comprising nearly one-half of our total imports. Our consumption of such commodities is increasing rapidly, the value having doubled in the past decade. This increase is only partly due to higher prices. Some of these articles we produce in small quantity, notably cane-sugar, tea, and raw silk, but we find it more profitable to import most of them. We note that this class of imports supply us with many valuable

articles of food and also with raw materials for use in our industries.

2. Staple commodities produced here, but in insufficient quantity to meet the demand, as wool, hides and skins, furs, paper stock, vegetable fibres (other than cotton), tin, and fertilizers. Without these our industries would be sadly crippled and the range of our activities greatly circumscribed.

3. Articles of special types, grades, or qualities, produced in certain restricted districts, and needed to supplement our own production. An excellent example is Egyptian long staple cotton, so essential in some branches of the cotton-manufacturing industry. Thus we find that cotton is not only our leading export but that it also figures somewhat prominently in our list of imports, totalling \$36,000,000 in 1918. Another example is our importation of Sumatra, Havana, and other tobaccos, which have certain qualities demanded by the trade.

4. Manufactured articles that are not produced here or that differ in greater or less degree from those produced here. In this class of imports we find many articles that can be and are produced as well and as cheaply at home; in some cases the variation from the domestic product is slight, while in others it is wide. Among these imports are many articles that might be made here, but can be imported more cheaply. This is either because we lack the skilled labor with the special training and experience in those particular lines, or because the conditions incident to the making of such articles are unsuited to our temperament or standards. For instance, we are only slowly acquiring the special skill requisite in the manufacture of fine cotton embroideries and laces. Before the war we imported these to the value of about \$40,000,000 annually, Swiss embroideries alone costing us \$10,000,000 each year. So with hand-made articles, such as toys and knick-knacks. We have not the patient, plodding disposition

characteristic of the Asiatic or even of the European workers who spend their lives making these things for our amusement. Neither are our workers able or willing to live on the low wages too often paid for such labor. Herein lies one of the advantages of international trade: it enables each country to devote itself to the production of those articles for which it is especially well adapted and in which it derives the most satisfaction.

Articles Both Imported and Exported.—The division of labor among nations whereby each specializes to a certain extent not only upon the production of distinct classes of commodities, but also upon particular types, or styles or grades, results in a very free interchange of products. As illustrative of the cosmopolitan character of the American market, which absorbs a wide variety of commodities, often demanding imported articles because of their novelty, their distinction, or their superiority, supposed or real, over the domestic product, the appended table containing a list of articles that we both import and export in large quantities is given. The values are expressed in millions of dollars, and are for the year 1915.

	Imports	Exports
Cars, carriages, and other vehicles.....	1.4	85.1
Chemicals, drugs, and dyes.....	83.8	46.3
Clocks, watches, and parts.....	3.7	2.5
Cotton manufactures.....	46.2	71.9
Earthen, stone, and china ware.....	8.6	2.7
Manufactures of fibres and textile grasses (other than cotton).....	61.5	12.2
Fruits and nuts.....	43.9	34.9
Furs and manufactures.....	10.5	3.7
Glass and glassware.....	4.5	5.5
Hides and skins.....	104.1	4.6
Iron and steel and manufactures.....	22.7	225.8
Leathers and manufactures of.....	20.1	120.7
Paper and manufactures of.....	25.8	19.8
Spirits.....	5.5	1.9
Vegetables.....	9.3	10.8
Wood and manufactures of.....	60.7	49.9
Wool manufactures.....	29.7	27.3

Source of Imports.—The proportion in which our import trade was distributed among the different grand divisions in 1900 and 1914 is shown in the following table, which gives the values expressed in millions of dollars, and the percentage of our total imports supplied by each.

Continent	Our imports 1900	Per cent of total 1900	Our imports 1914	Per cent of total 1914
Europe.....	440.5	51.8	895.6	47.3
North America.....	130.0	15.3	427.3	22.6
South America.....	93.6	11.0	222.6	11.8
Asia.....	139.8	16.5	286.9	15.2
Oceania.....	34.6	4.0	42.1	2.2
Africa.....	11.2	1.3	19.1	1.0

We regularly draw upon Europe for about one-half of our imports. Manufactures come first in the list, with chemicals and such raw products as hides and skins and fibres holding important positions. Not all of our European imports are European products. The United Kingdom, Germany, France, Belgium, and the Netherlands all have a lucrative re-export trade. They assemble at their trade centres the products of many countries and sell these to importers the world over.

North American countries are our next best source of supply, Canada leading, with Cuba next in importance, and Mexico third. Canada supplies us with timber, wood-pulp (used in paper manufactures), minerals, and grains. Cuba is a splendid source of supply for sugar, molasses, and tobacco. Mexico furnishes us with mercury, gold, silver, cabinet-woods, hemp, and coffee. Central America supplies tropical products.

From South America we obtain a large part of those tropical products that we need. Coffee and rubber are of the greatest importance. Minerals, live stock, and agricultural products are produced in abundance in most

South American countries, and are exchanged for manufactures. Hence, these as well as the other Latin American countries (the Central American republics, Mexico, Cuba, Haiti, and the Dominican Republic) afford splendid trade opportunities for those nations producing a surplus of manufactures and importing tropical and other raw products.

Asia supplies us with jute, tea, rubber, tin, goatskins, and Persian rugs. These commodities are obtained from India and other British possessions and from Persia. China and Japan are our best source of supply for tea, silk, camphor, and those distinctly Oriental products that find a steady sale in American markets.

Oceania, which includes Australia and New Zealand and other islands of the Pacific, is a part of the globe in which we have not extended our trade as rapidly as have other nations. Australia's wool and hides are two products that we need and that we are importing directly in increasing quantities. Other imports from those countries have come to us largely through the United Kingdom and other European countries. Since these countries are as yet undeveloped as far as manufacturing is concerned and since they have rich natural resources that only await capital and labor to make them wonderfully productive, they are certain to hold a more and more important place in the world's trade. The great need to expand our trade with them is direct steamship routes, so that they may be able to send their surplus raw material across the Pacific and to obtain here the manufactured products and structural material they require.

Our direct trade with the great continent of Africa has been very small, constituting until after the World War less than 2 per cent of our imports and a trifle over 1 per cent of our exports. Yet that continent produces many commodities that we require, such as tropical products, hides and skins, ivory, and sponges. With the increase

of the American merchant marine and the extension of American banking facilities to this as to other continents, a greatly increased direct trade may be predicted.

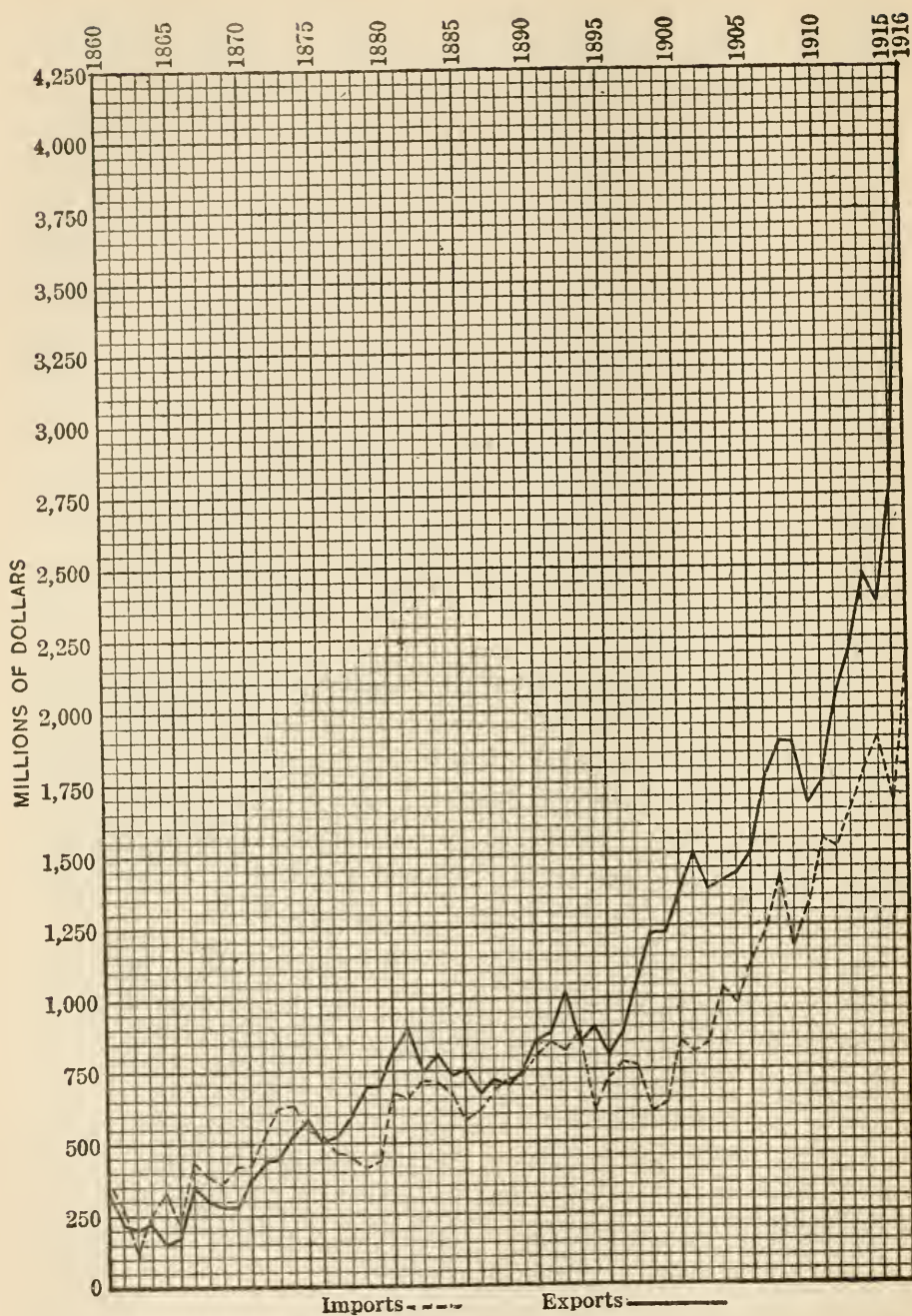
Latin America as a Source of Imports.—The fact that a large part of our imports comes from South America is of great importance commercially. Theoretically, at least, a country from which we buy should offer a ready market for such of our exports as that country needs. Practically, this has not always proven true. For instance, we are Brazil's best customer, our total purchases of coffee, crude rubber, and other products from that country aggregating in a single typical year (1914) \$101,329,000. In that same year our merchants exported to Brazil goods valued at only \$29,963,000, leaving a credit balance in Brazil's favor of \$71,366,000, and yet Brazil's imports consist of just those commodities that we most desire to sell in increasing quantities abroad.

While we furnish a market for nearly one-half of Brazil's exports, that country buys only a little over one-third of her imports from us. The condition in regard to our trade with every one of the important South American republics is the same, our exports falling far below our imports in value, although this was not the case with respect to Argentina until after the outbreak of the World War.

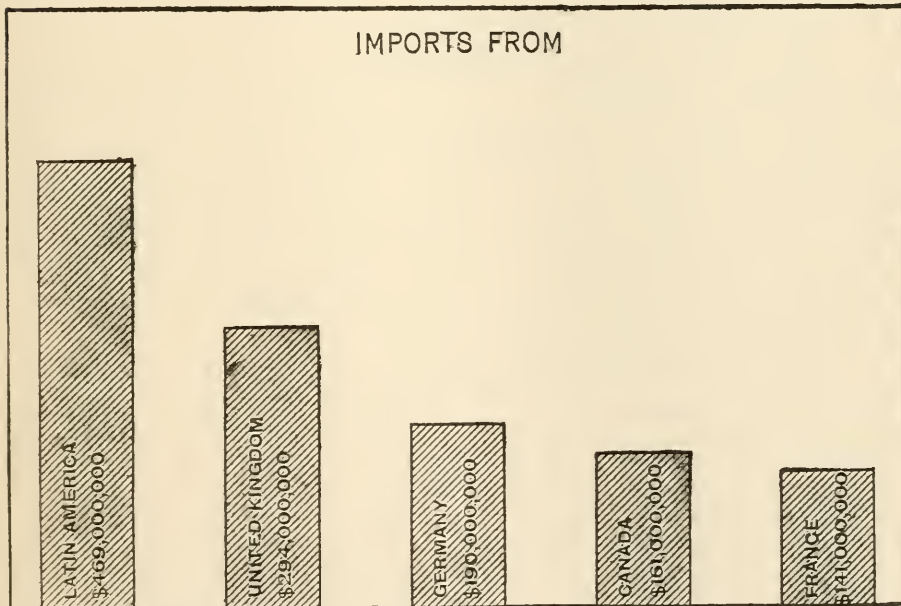
The result is that while we regularly obtain from one-fourth to one-third of our imports from Latin American countries, these countries afford a market for only one-tenth to one-eighth of our surplus commodities, and, consequently, our purchases from these countries fall not far short of double our sales. In the years 1918 and 1919 our exports more nearly approached the value of our imports from Latin America. But in normal times European products have been preferred there.

The reasons for this are various, among which may be mentioned the early hold other countries, such as England and Germany, obtained in Latin American markets, the

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IMPORTS AND EXPORTS OF THE UNITED STATES, 1860-1916



OUR IMPORTS AND EXPORTS BY LEADING COUNTRIES, 1914

Grouping the twenty Latin American republics together

oft-reiterated unwillingness or inability of American merchants to conform to South American trade customs, and the lack until recently of adequate American-controlled banking facilities in Latin America.

Exporters and bankers agree in recommending the following, among other measures, in order to extend our Latin American trade, at least to the point where the imports we take from our sister American republics shall be fully offset in value by the exports we send them.

First.—By obtaining from every source possible definite and detailed information as to the commodities imported by the different republics, so that the grades, qualities, design, and styles demanded may be manufactured and offered to the Latin American trade.

Second.—By developing our export sales organization so as to eliminate misunderstanding and delay, and make available to Latin America, with the least possible expenditure of time and money, those commodities which they desire and which we can supply.

Third.—By concerted effort on the part of our banking institutions to facilitate the financing of exports to Latin America and to co-operate in every way possible with American exporters so that they may have banking facilities which are the equal or superior to those enjoyed by the commercial houses of other exporting nations. The development in this respect in the past five years is most noteworthy, but more is yet to be done.

Fourth.—By encouraging the growth of the American merchant marine, so that adequate shipping facilities, under the American flag, may be available for the shipment of American goods to these countries in which our markets are being extended. With a merchant marine flying a foreign flag, the odds are against the American from the start, as is shown by the pre-war conditions in which ships bringing Latin American products to the United States were routed so as to sail from here to a British port

and thence to the Latin American port whence she started. Thus we were deprived of the direct shipping facilities to Latin America necessary to an active export trade.

Such a triangular system had the further disadvantage of making it easy for the Latin American countries to buy their needed manufactured products direct from British firms, which obtained the raw materials from us. Since it is manufactured articles that are most difficult to market, the disadvantage of such a system is evident. While the establishment of direct trade relations with the less-developed countries during the war has had its effect in diminishing our three-cornered trade, the tendency is still to follow the old custom.

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SEE END OF CHAPTER II

CHAPTER VI

EXPORT SALES ORGANIZATION—MANUFACTURES

Direct and Indirect Exporting.—There are two methods of marketing manufactured products in foreign countries. The first is through export commission houses and other middlemen. The second is by the direct sale of the product from the manufacturer to the foreign customers. These customers may be wholesale importing and distributing houses handling one or more lines of merchandise, wholesale or retail mercantile establishments, or the ultimate consumer. The nature of the product, the established system of handling it, and other special conditions largely determine the details. The point is that in selling direct the manufacturer sells to the same customers as do the export commission houses. Instead of using the sales organization of the export house, the direct exporter devises and controls his own methods of reaching the buyers of his product.

Sales Organization of Large Corporations.—The selling organization developed by those firms and corporations that have built up a large and successful export trade naturally vary according to the product and the countries to which sales are made. In general, however, the foreign sales organization consists of an export department in the central home office, in charge of an export manager; branch offices at the ports from which the bulk of the shipments are made; branch offices located in the foreign markets being exploited, each in charge of a sales manager; travelling salesmen in the various foreign fields, who co-operate with the branch offices, and local agencies in those places where other representation is not maintained.

The sales organization just outlined has usually developed by degrees, attaining perfected form only after some export trade has been established. In every case it has been preceded by thorough investigation of the trade conditions and of the possibilities of extending the sale of the product in the foreign field.

Preliminary Investigation.—The investigation conducted by large firms preparatory to entering the direct export field has two distinct sides: that carried on at home and that in the foreign country. Investigation at home makes use of statistics, consular reports and other documents issued by the United States Government and by those of the foreign countries under consideration, reports of mercantile and export associations, trade journals, books and articles dealing with the economic and commercial conditions of the countries, and of many other similar sources of information. It includes a consideration of transportation rates and transportation facilities, tariff laws affecting the sale of the product, banking facilities afforded for carrying on the proposed trade, and every other phase of the subject directly bearing on the extension of business abroad.

The investigation conducted in the foreign field is often preceded by a trip of some duration made by a responsible officer of the firm, who appraises the situation at close range, studies the possibilities for the sale of the product, the competition already in the field, the prevailing business methods, and the local customs and conditions having a bearing on the subject. If the field promises good returns, this preliminary investigation is followed by that made by experts, who devote weeks or even months to collecting data and preparing a complete report. The finished report is thus described by an authority on the subject:

These trade reports show the general demand for the particular article under investigation; the quantities imported in prosperous and bad years, with the latest figures of exports; the present source of supply and from what foreign countries the demand has been

filled, and the stock on hand, with wholesale and retail prices. A comparison is made of the invoice prices, together with the freight charges. . . . This, added to the customs duties upon the article, gives the comparative cost of placing the American goods in the foreign country as against a competing line from Europe, and may be used as a basis for determining whether or not there is a profit in entering the market. These reports also show the terms of payment which are customary and the manner of packing. They give a description of how business is conducted in the particular trade in question. They indicate through what hands it passes from the manufacturer to the ultimate consumer, and furnish a list of reliable merchants dealing in the article.

Steps in Developing a Sales Organization.—The largest corporations have developed their foreign sales organization somewhat as follows:

1. By making a thorough study and investigation of the field, similar in general to that just described, for the purpose of ascertaining its trade possibilities.
2. By organizing an export department.
3. By introducing a thorough system of instruction for the benefit of every member of the export department, including those to be sent abroad.
4. By establishing branch offices or houses in the trade centres of the various countries.
5. By the selection of resident agents, usually by the managers of the branch offices, to handle the product, usually on a commission basis. The resident agents selected are, in most cases, men engaged in business in the community.
6. By sending out travelling men, who work in conjunction with the branch offices and with the resident agents. The salesmen push the sale of the product, which the customer purchases through the resident agent, or, in some instances, through the branch house.
7. The preparation and distribution of catalogues, booklets, price-lists, and other advertising matter, all in the language of the country.

Methods Employed by the Standard Oil Company.—An understanding of the complicated and thoroughgoing organization built up by the largest corporations will be greatly facilitated by considering in some detail that of the most successful of these, the Standard Oil Company. When that corporation first considered the advisability of entering the direct export field, instead of selling to foreign countries through commission houses who distributed the product through agents in the various countries, it first made an exhaustive study of the situation. A period extending over five years was occupied in preparing for the export business of that corporation, which has been the most successful of any in the world. Experienced men were sent abroad, studying markets, duties, restrictions on the conduct of business by foreign firms, customs and traditions affecting the demand for their product, and other basic conditions. In some countries it proved difficult to secure permission to enter the field. Diplomacy, powerful influence, tactful suggestions as to desirable changes in the laws and governmental policy, and other well-directed propaganda were all resorted to as needed, in order to secure the right to carry on business under reasonably favorable conditions. In some countries, where the policy of a fair field and no favor prevailed, little preliminary work of this nature was required; in others much missionary work was necessary.

It was not until 1880 that the Standard actively entered the export field. In order to fully develop the possibilities of every district, it was found advisable to build up a selling and distributing system very similar to that used in the United States. It established branch offices in every important point, with central distributing stations where the oil could be supplied to dealers and consumers, placed small stations wherever the need arose, put out retail wagons just as are used in the United States, and supplemented this direct selling organization with agencies in

out-of-the-way places, where the consumption did not justify placing a station. It did not merely "supply the trade"; it used every method and device possible to create a demand for its product. These included propaganda in the form of advertising, booklets, and other publicity, the solicitation of business, demonstrations of the uses of the product, and other methods of trade-building. In China and elsewhere, where modern lamps were unknown, the company supplied their customers with lamps giving excellent light with a small consumption of oil at a price lower than the cost of manufacture.

Not only did this corporation, which has never believed in half measures, develop a sales organization of the highest efficiency, but it also improved its distributing system so as to reduce the cost of transportation. It installed a system similar to that used in the United States, where the oil is pumped from the well to storage-tanks, thence to the refinery, where the crude product is manufactured into refined oil, thence pumped into tank-cars, conveyed to the port, pumped into tank-steamers, and thus taken to the foreign port. Here it is pumped into tank-cars again, carried to great tanks at the distributing centres, and is pumped from these tanks into oil-wagons, to be taken to the substations and peddled from place to place. The use of barrels for shipment, which were costly and required much handling, has thus been eliminated to a large extent.

The oil is sold to foreign consumers in cans just as it is in the United States. It is of interest to note that the value of selecting a trade-mark that appeals to the customer is recognized by this corporation, which in India supplies the public with the "Elephant Brand" of oil put up in cans adorned with the picture of that sacred animal. Practically all of the product sold abroad is said to be produced in the United States. Where the refined product is discriminated against by tariff schedules or otherwise, re-

fineries are built and the crude product is shipped from the United States. It sells its product in every country of the world; it is stated that there were more Standard Oil wagons in Europe in 1914 than in the United States.

The United States Steel Corporation.—The decision of the United States District Court for the district of New Jersey, rendered in 1915, denying the petition of the Department of Justice for a decree for the dissolution of the United States Steel Corporation, contains a clear statement of the part that such corporations have played in extending the foreign trade of the nation. The following summary of that part of the decision is from a bulletin issued by the National City Bank of New York:

The court finds that by means of its extensive organization, its large capital, the diversity of its products, and the great volume of its business, the Steel Corporation has been able to greatly increase the exportation of iron and steel products. When it was organized, the total exports of such products from this country were about \$31,000,000 per annum, but these sales were made in a desultory way, largely for dumping purposes, and without any attempt to develop the foreign trade in a systematic and permanent manner. The Steel Corporation created a subsidiary company, known as the Steel Products Company, to handle this business. It owns some 40 warehouses in important foreign trade centres in which ample stocks of all goods likely to be called for in the trade are carried. There are 15 of these warehouses in South America. There are many other places where the goods are kept on sale through representatives, over 300 in all, in 60 countries. These depots afford the facilities for the prompt despatch of orders to all parts of the world. For example, a warehouse is maintained in Antwerp, although there are practically no sales in Belgium, because Antwerp is an important shipping centre with frequent sailings to many points, and for the same reason there is a warehouse at Trieste to accommodate trade in the Adriatic and eastern Mediterranean. The result of efforts to create trade in British Columbia is described. A warehouse was established at Vancouver, but the freight rate on steel from Pittsburg to Vancouver was prohibitory as against the water rate from Liverpool and a customs discrimination of 33 $\frac{1}{3}$ per cent in favor of British steel. The Steel Products Company established a line of steamers of its own through the Straits

of Magellan. These steamers touch at several ports on the west coast of South America and Mexico, some of which have no regular steamers from the United States, and they have been carrying considerable goods for other manufacturers in this country who have no other facilities for reaching these ports. In order to obtain return freight, these steamers load with lumber or coal for the Gulf of California; there they reload with copper matte for Dunkirk, France, and in France take on chalk for New York.

The Steel Products Company now owns twelve steamers and has several times that number chartered. In order to justify such extensive arrangements for marketing and transportation as these, the court finds that a great variety and large volume of products is necessary. It finds that the Steel Corporation has gone beyond the capacity and equipment of its own works, and has aided the manufacturers of other steel products to enter the export trade by furnishing basic materials to them at special prices for this purpose and marketing their goods through their agencies. A list of 158 such manufacturers was furnished.

Furthermore, in order to create an outlet for its goods, the Steel Products Company will take contracts for construction work where this is necessary, and to this end maintains a permanent engineering force in Buenos Aires. It put up the first steel building in that city, and has put up most of the steel buildings in South America. These are the alert, effective, and aggressive methods by which the steel exports of the United States were increased from \$31,000,000 in 1901 to \$91,000,000 in 1911. The court is of the opinion that such efforts are possible only to such an organization.

While few corporations have found it necessary to adopt such thoroughgoing methods as those just outlined, the firms that have won marked success in the foreign field have, nevertheless, spent large sums of money in developing this branch of the business, and have seldom reaped returns for the first few years. Such expenditures are considered as part of the investment, which will produce satisfactory results in due time. The establishment of foreign connections, the gaining of thorough familiarity with conditions in the foreign field, the learning what to do and what not to do, and the training of a corps of expert workers all require time and patience, but once accomplished the results have almost invariably proven eminently worth while.

Sales Methods Used in Direct Exporting.—The sales methods used in direct exporting may be considered under five heads, as follows:

1. *Branch Offices* established in the various trade centres, each under the management of an executive clothed with final authority in all but the most important matters affecting the policy of the corporation.

2. *Salesmen*.—These are of two classes: those working out of branch houses in the foreign countries, and those sent out by houses that maintain no foreign branches.

3. *Foreign Agencies*.—These are usually well-established firms of the nationality of the country, who are given the exclusive agency for the product for a city, district, or for the entire country.

4. *Advertising* in export journals, trade journals, and local publications.

5. *Distribution of Catalogues* and circulars and direct correspondence with prospective customers.

These methods overlap in many cases, even to the extent of one firm making use of all. Each will now be considered in some detail.

Branch Offices.—These are located in the trade centres of the various countries. They operate either through salesmen or agencies or both. In most cases each branch maintains a corps of salesmen, each having a district allotted to him in which he makes every effort to push the sales of the product. Branch houses are sometimes executive offices under the management of a general sales manager, who directs the work of the salesmen, appoints agencies, and co-operates with such agencies, attends to the forwarding of orders, the receiving of shipments, to the collection of accounts, to the assembling of credit and trade information, and to other details of the business. Branch houses often carry a full line of samples; sales are made from these samples and orders transmitted by cable. Those

maintained by the largest corporations usually carry a large stock of goods. They thus become mercantile establishments, which supply their customers with their wares without waiting for an order to be shipped from the United States. The advantages of such a system are obvious, but the increased capital and the large organization entailed make it practicable only in the case of a limited number of corporations doing a business of immense proportions.

Salesmen.—Those manufacturers that consider the extension of their foreign sales as an important factor in the business, and who have won or hope to win permanent success in the export field, have, in the great majority of cases, organized an efficient sales force, which they maintain in the foreign market being exploited. Providing the volume of export business that may be secured warrants the expense, a well-qualified salesman is considered the best means of getting that business. Where there is no branch office maintained, the duties of the salesman are not confined to pushing the sale of the goods. He may find it his duty to check up lists of prospects, to add to such a list, to distribute catalogues and advertising matter, to report on trade conditions and on the credit standing of prospective customers, to appoint local agents, and even to attend to the collection of accounts and the adjustment of any misunderstandings that may arise between his firm and their customers. It is readily seen that a salesman qualified to perform the various tasks suggested must be one of wide experience, proven probity, and unusual ability. Consequently, his remuneration is usually high; it consists of a salary and a commission on sales. The fact that the expenses of a salesman in the foreign field are generally much heavier than at home makes a fairly respectable income a necessity.

Foreign Agencies.—These are of two classes: foreign business firms and manufacturers' resident agents. The

largest part of the direct export business of the average manufacturer is secured and handled through foreign firms to which an exclusive agency for a district is granted. Merchants and small dealers are their customers. They have excellent opportunities to push the sales of a given product, because they are usually well-known and long-established firms of the same nationality as their customers. They understand and share the tastes and prejudices of the buying public, have the confidence of their fellow citizens, have a social position in the city in which they carry on business, and bear an intimate relation to the life of the community difficult for an outsider to acquire. They are thus able to adapt their methods to the demands of the trade and to secure business where an American would often utterly fail. German exporters have made the widest use of such agencies with most gratifying results.

The method of selecting firms to act as agents is important. While this is sometimes done by correspondence with good results, it is considered better policy to make the appointment only after a personal visit to the field by a representative of the firm. When this is not practicable, correspondence is opened with persons or firms recommended by United States consuls, banks, and others.

A general agency is confined to a territory of workable extent, seldom including a whole country. As a rule a firm is sought that does not handle competing lines, though, if there is considerable variation in price and quality, the same agency may successfully handle the products of competing firms. Here again the nature of the wares and local conditions govern.

Local agencies are made use of in much the same way as are general agencies, their customers being the consumer and not other dealers. Such agencies are appointed either by the manager of branch offices, by salesmen, or by general agencies. Their operation is confined to a city, town, or small district. They often prove of great value in ex-

tending the sale of a given product, though this is not always the case.

Another class of agents, not readily distinguished from salesmen, is that known as manufacturers' or resident agents. Such an agent lives in a trade centre, usually maintains an office with sample-rooms, and represents either one manufacturer or a group of manufacturers. It is his business to promote the sale of the wares he represents. He works on a commission basis. He deals not with the consumer, but with retail or wholesale firms. Manufacturers having small capital or small chance of developing a large volume of business in foreign markets often find it to their advantage to make use of a group representative, who handles several lines and often succeeds in building up a large volume of business for each of his principals. Such a representative is usually of the same nationality as his customers, though American salesmen sometimes develop such a business with marked success in markets with which they are familiar.

Advertising.—Advertising in foreign trade is used either to promote the sale of goods through salesmen and local agencies or to work up a mail-order business. The mediums selected are export journals, trade papers, and local publications. The Bureau of Foreign and Domestic Commerce issues a document which contains a very complete list of all foreign publications, with data as to frequency of publication, extent of circulation, advertising and subscription rates, and the general character of the publication. Manufacturers are thus enabled to select their medium. Copy is prepared by the regular advertising department and translated by a skilled translator, who is thoroughly familiar with the niceties of the language and with local customs and traditions. Many manufacturers carrying on an extensive advertising campaign in the foreign field employ an advertising agency, whose business it is to have a somewhat definite knowledge of the character of adver-

tising that has the greatest pulling power in the market in question.

The appeal made by the advertising copy scoring the greatest success in the United States often proves ineffective in other countries. The finding of the point of contact, the emphasis made in the appeal, the whole form and structure and character of the advertisement require an expert who knows the tastes, the character, the traditions, the prejudices of those prospective customers who may read the copy. It is only by looking at an article through the eyes of the foreign customer, and so framing the advertising copy as to play up the goods from this angle, that results can be won in foreign lands. The appeal may be in the price or in the quality, in the durability or the fragility, in the size or shape, in the form or color. It may be because it is a novelty, something new and strange, or because it is a staple, well known and familiar. Where the color counts not at all in the domestic sales, it is not infrequently found to play an exceedingly important part in foreign sales. Unless the appeal is correctly determined, foreign advertising necessarily fails to create the desire for the article which is the purpose of all advertising. The firm exploiting the foreign field finds the point of contact, and frames its advertising accordingly. Closely allied to this is the importance, the character, size, shape, and color of the containers often hold in the sale of the article in the foreign market. When these are cleverly adapted to the trade, the placement of the goods is often greatly facilitated; trade-marks and trade names are likewise of importance, often proving the winning factor in the sale of the goods.

Catalogues, Circulars, Direct Correspondence.—The distribution of catalogues, circulars, and price-lists through the mails, followed by systematic correspondence, is a method of reaching the foreign buyer that has been used with gratifying results by many American manufacturers. Special editions of the firm's catalogue are issued in the

required language, and are distributed to selected lists of prospects. The export catalogue includes only those lines or articles adapted to the needs of the community in which it is circulated. It contains a definite description of the articles, with exact weight and dimensions as packed for export, with approximate cost of delivery by mail, express, or freight, as the case may be. The price is stated in United States money and in the money of the country in question. The duty is specified where this is practicable. Thus the prospective customer is able to determine just what the article will cost him delivered.

While every kind of commodity, from locomotives and gas-engines to pins and carpet-tacks, may be and have been sold from catalogues, this method is especially well adapted for selling articles of comparatively small size and weight, which can be delivered by parcel-post.

International Parcel-Post.—The place occupied by the parcel-post in international commerce is far more important than is usually realized. In 1913 parcels valued at \$45,000,000 were sent out of England by parcel-post; those sent from Germany and from Austria-Hungary exceeded this figure; France led all the nations in the extent of overseas commerce thus transported, the value of such exports being over \$113,000,000. Other nations likewise carried on a large parcel-post business, which is not taken cognizance of in the official statistics of foreign commerce, but which aggregate many millions of dollars annually. The volume and value of the commerce thus carried on in 1915 and 1916 greatly exceeded that of the period antedating the World War, England alone doubling the value of the merchandise sent out of the country through this medium. The development of the parcel-post in the United States has added a new and effective method for the extension of our trade relations with other nations. It is especially helpful in the first stages of exporting, where a manufacturer begins to explore tentatively the opportuni-

ties afforded for the sales of his wares to foreign consumers. While no record is kept of the value of wares thus sent to foreign countries, it is estimated at \$50,000,000 for 1916.

Extensive mail-order and catalogue trade has thus been obtained by manufacturers of articles suitable for this method of transmission, notably shoes, books, gloves, confectionery, and household utensils. Consular invoices are not required on parcel-post, except in the case of a few countries, which means a considerable saving; the charge for a minimum bill of lading required by ocean carriers on small shipments is likewise avoided. A customs declaration is required. The form is obtainable at United States post-offices. The contents of each parcel must be accurately described and the value stated on this declaration, which is attached to the parcel in the form of a tag. Parcels must be so wrapped as to permit their contents to be examined by postmasters and customs officials. In general, liquids, poisonous, explosive, and inflammable substances are excluded. Articles dutiable in the country of destination are admitted. Arrangements made by the United States with most foreign countries limit the weight of such parcels to eleven pounds and the size to six feet by three and one-half feet. The rate is twelve cents a pound or fraction thereof.

The Webb-Pomerene Act.—In closing the discussion of export sales organization, the effect of the Webb-Pomerene Act, passed in 1918, calls for consideration. That act authorized the formation of export associations by manufacturers of competing products. This opened the way for the pooling of interests by the firms engaged in export business. Under the law the export sales organization of one firm or corporation may be, by mutual consent, taken advantage of by another, foreign territory may be divided among competing firms, and other arrangements made to further the export trade of the firms concerned.

The Guaranty Trust Company of New York in its circular of January 29, 1920, has this to say of the law:

The Webb-Pomerene law has released this country from previous legal restrictions, and made possible forms of combination quite as effective as those hitherto adopted in Germany, England, and elsewhere. More than one hundred organizations of American exporters have filed papers with the Federal Trade Commission since the passage of the Webb law, indicating their intention of combining in this way. They will achieve a double result. First, they will be able to compete with European selling organizations in Latin America, the Far East, and other outside markets. Second, they will be able to oppose a united front to all attempts of European buying combinations to depress American export prices through playing one American concern against another. The Guaranty Trust Company of New York has issued a booklet on *Combining for Foreign Trade*, explaining in considerable detail the possible forms of export combination under the Webb law, and illustrating by charts some of the more famous European combinations.

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CHAPTER VII

EXPORT AND IMPORT COMMISSION HOUSES

Importance in Development of International Trade.—The part played by export commission houses in international trade has been an important one since their rise in the sixteenth century. Their service in facilitating the exchange of products is well described by Professor Clive Day in his *History of Commerce*. In describing the extensive trade of a wholesale merchant of Frankfort about 1600, who bought silk and drugs in Venice, spices in Amsterdam, and sent them for sale to Hamburg; iron and wax in Hamburg and sent them to Spain; indigo and wool in Spain and sent them to Amsterdam and Antwerp; rye in Amsterdam and sent it to Genoa, Professor Day says:

Such a business would have been impossible in the Middle Ages, when a merchant accompanied his wares or shared his responsibilities with a few associates. It was made possible now by the development of the commission trade. Commission merchants, or factors, made it their profession "to buy and sell for other business men for a certain profit which is given them for their trouble by the principals." Sometimes they were in business on their own account also; sometimes they were specialists in various lines. A writer of the seventeenth century distinguished five classes: those who lived in a manufacturing or commercial centre and bought goods for others; those who sold goods for others; the correspondents of business men and bankers who make collections and remittances of money for them; forwarders, who received and forwarded goods at places of transshipment, and, finally, the agents for carriers, who distributed and collected the load of a freight-wagon in a city. The duties of a mercantile factor, in general, were to advise his principal frequently concerning the market for wares, the course of exchange, etc., to acknowledge letters punctually, and to follow orders exactly. The commission varied from 5

per cent of the value of the goods in the West Indies to 2 per cent or even less in some of the European countries.

From that time to the present the commission house has promoted the free exchange of the commodities of one nation for those of others by keeping up a world-wide organization, which the merchants and manufacturers of every nation have found it to their advantage to use to a greater or less extent. The great export trade of both England and Germany was largely developed through these agencies, which are to-day, despite the tendency to eliminate the middleman, no inconsiderable factor in international trade.

Services of Export Commission Houses.—A large part of the foreign trade of the United States has been developed through export commission houses located at New York and other ports. These houses may be purchasing agents for foreign buyers or selling agents for American products. The largest houses have business connections in all parts of the world, while others confine their operations to one or two fields.

The commission house, handling a larger volume of business than the individual merchant or manufacturer, and using one selling organization to market the output of many manufacturers, is able to keep the selling expense at the minimum. Manufacturers having a comparatively small output and those specializing in one or two articles frequently find it to their advantage to sell through commission houses. Others enter the foreign field through commission houses, and later develop their own export sales organization.

The following, from Westerfield's *Middlemen in English Business*, gives a clear idea of the function of commission houses:

A commission house buys and sells in foreign trade, in its own name, for a number of principals a variety of goods, on commission.

It receives the goods by consignment from a merchant or manufacturer. It is intrusted with the possessions, control, management, and disposal of the goods sold. It does business in its own name, but on the account and at the risk of the principal.

These houses are houses of reputation, capital, and credit. They allow the consignor to draw on them for a large per cent of the value of the goods consigned, immediately upon receipt. Such advances require large capital on the part of the consignee. They store the goods, sell them in their own name, and guarantee payments of the accounts to the consignor. They carry out the shipping details, caring for lading, shipping, insurance, commercial papers, etc. They also buy goods upon order from foreign houses, and finance and ship the order, collecting the outlay from the consignee. Their profits arise from the commission paid, interest on their outlay, insurance, profits, etc.

The advantages that are realized by a foreign firm in buying through a commission house are: first, that all orders may be forwarded and all payments made to one person instead of dealing with various firms; and that likewise all shipments are received on one bill of lading; and, secondly, that larger credit is likely to be got from a commission house, it being acquainted with the general condition of trade and having wider banking connections. . . . It is equally advantageous for the producer to dispose of his goods through the commission house, for the house carries out the details of shipping and procures lower freight rates on the large bulk shipments than can be had on the small quantities the manufacturer would have to ship; and, further, the commission house is a home firm whose financial strength is easily investigated, against which suits for the recovery of debts are made according to home laws, whereas if the dealing was done directly by the producer, collections would be made abroad.

The obvious disadvantages engendered in the dealing through the commission house are that the house handles a variety of goods and is not specialist in any, and that the house usually wants an exclusive agency for the principal, and the granting of this monopoly may result in limiting the market for the principal's goods.

Different Types of Export Houses.—Some export commission houses limit their sales to a few lines of goods in a few markets; others accept or solicit orders for practically every commodity that caters to the wants of man and carry on business in every part of the world. Some are old-

established houses of the highest standing, which possess almost unlimited capital, own their own ocean-carriers, own or control banking institutions, and handle millions of dollars' worth of business annually. Others are firms possessing little capital and experience, struggling side by side with the individual manufacturer to secure a foothold in the markets of the world. It is only by careful investigation that the standing of such houses can be determined. Banks and mercantile agencies are the best sources of information as to the responsibility of such firms.

Export commission houses are so varied in type that it is difficult to classify them, but the following classification gives a fair idea of their activities.

1. *Indent houses*—These are strictly commission houses, buying goods only after orders have been received for the same. They deal in practically every commodity in any quantity. They purchase from any manufacturer offering the goods at the best prices. Their customers may be importing houses located in foreign markets, wholesale or retail firms, or individuals. Orders are received either through foreign branch houses, foreign salesmen, or by direct relations with the foreign buyers established by means of correspondence, catalogues, advertising, or otherwise.

2. *Commission houses* or trading companies which handle all products they can place in the foreign field, charging the American manufacturer a commission for their services. Such houses sell to the foreign buyer at the manufacturer's price, receiving their commission from the seller and not from the buyer. This commission covers the cost of documentation, of the expenses incidental to shipping the goods, of financing the shipment, and of other similar expenses. The commission is commonly 5 per cent, though it may be as low as $2\frac{1}{2}$ per cent, or as high as 10 per cent. These firms do not

limit their services to any group of manufacturers, but reach out for all the business they can handle.

3. *Merchant houses* which buy from manufacturers on their own account and sell to their customers through branch houses or established agencies. These merchants do not operate on a commission basis. They are mercantile establishments buying in the United States and selling in foreign countries.

Advantages of Selling Through an Export House.—The large volume of business transacted by the oldest established export houses gives them an advantage in marine freight rates which is a factor in their success. In many instances they are able to assemble a large number of orders from one place and make one shipment of these, with resultant advantages not only in freight and transfer charges, but also in the saving of the cost of documentation and other incidental items. The buyer of various kinds of goods finds it to his advantage in many cases to place his order with an export commission house, which assembles the goods, packs them properly, and ships them on one bill of lading and under one consular invoice. This saves much detail work, expedites the clearance of the merchandise at the custom-house, and involves the minimum expense for packing, freight, insurance, consular fees, etc.

The larger and more successful export commission houses have well-established trade relations with most of the important buyers in the markets in which they transact business; they are thus in close touch with financial and trade conditions, and are in a position to determine with considerable accuracy how and to whom credit may be extended with safety and how large a quantity of a given commodity a market can absorb. Their extensive trade connections, their long experience in the foreign field, their minute knowledge of the different conditions and requirements of the various markets, and their mastery of the details in-

volved in making export shipments all enable them to carry on trade with the minimum of friction and loss.

Many of these houses were pioneers in the export trade of the United States. It is estimated that more than half of our exports to countries other than Europe have been sold through export commission houses. The extent of the business thus transacted is thus seen to be enormous. Their methods of securing business in foreign markets and of handling that business do not differ materially from those used by other large firms engaged in direct exporting. The larger houses have a complete sales organization in the markets in which they seek business and all have representatives in the ports to which they ship goods. A study of the methods used by large manufacturing firms carrying on an extensive direct export trade gives the student an understanding of the methods that are likewise used by the large export houses.

Promoting Trade Through Export Houses.—While occasional orders may be obtained through export commission houses with little effort on the part of the manufacturer, large and permanent trade is not so easily secured through these agencies. Ordinarily, it is necessary for the manufacturer to co-operate closely and continuously with the export commission house, if he desires to extend the sale of his product in the foreign market through such an agency. This co-operation takes the form of advertising in foreign and trade papers, of a judicious distribution of catalogues, of the supplying of samples where practicable, and even, in some cases, of sending salesmen to the foreign market to assist in introducing and pushing the sale of his goods. A demand is thus created among the customers of the export commission house for his product, with resultant sales.

Export houses not infrequently demand the exclusive agency of a manufacturer's product in one or more foreign markets before they will agree to handle his business. In return for the granting of such an exclusive agency, they

agree to push the sales of his product to the exclusion of similar lines of other manufacturers. The granting of such an agency binds the manufacturer to sell only through the house in question for a term of years. Such a contract may add greatly to the sales of a manufacturer; on the other hand, it may prove a handicap to the extension of the export business of the firm. It is repeatedly charged that unscrupulous houses have induced manufacturers to grant exclusive agencies in order to keep their goods out of certain markets. By living up to the letter of the contract, they are able to bind the manufacturers without attempting to produce a satisfactory volume of sales for their products. Reputable houses of long standing can be depended upon to carry out a contract in all fairness, but others have taken advantage of manufacturers and have thus reflected on all engaged in the business.

The Handling of Staple Products.—It must not be supposed that the business of the export commission houses is confined to the handling of manufactured articles. On the contrary, the bulk of their trade has been in such staple products as cotton, wheat, flour, cottonseed, petroleum, copper, and such other raw materials as have largely entered into our foreign trade. They still hold an important position in the exportation of such commodities, as explained in the chapter devoted to the exportation of raw materials and foodstuffs, though the tendency in recent years has been to place the handling of such products with firms specializing in each, or to export them directly, as in the case of petroleum and its products. Much flour is likewise now exported by the big milling concerns and a considerable portion of the cottonseed exported is now sold by the ginners direct to foreign buyers. The tendency is to eliminate the commission house wherever the volume of business warrants the building up of a selling organization of world-wide proportions.

The Export Commission House in Latin American Trade.—It is stated that over two-thirds of the exports

from the United States to Latin America are even now handled by export commission houses, located for the most part at New York, New Orleans, and San Francisco. In this trade the export house often has a very important function, as it not infrequently acts as an import as well as an export agent. In various Latin American trade centres native firms of long standing act as agents for the owners of plantations, mines, and other producing properties, importing from the United States and other countries the supplies needed for an entire season, and receiving in exchange their produce to be marketed abroad. Such a firm, which is as much an importing as exporting house, has connections in the various markets with export houses, and consigns to these the commodities in which it deals. The New York or New Orleans export commission house transacting business with such a concern must perforce be an importing house also. It receives the goods thus consigned to it and sells them on a commission basis. Usually it sends back manufactured or other products to the full value of the consignment. These are purchased outright from manufacturers or elsewhere, and are packed and shipped to the Latin American importer, who pays the usual $2\frac{1}{2}$ or 5 per cent commission for the service. The rubber industry of Brazil affords an excellent example of business so conducted, the entire supplies for a concessionaire and his employees being imported by a Manaus firm, who later receives the season's crop of rubber and exports it, usually through a commission house in New York.

The part taken by export commission houses in Latin American trade is thus described by a recent writer on the subject:

Hitherto it has cost the general manufacturer nothing to market his goods in Latin America beyond the trifling expense of publishing a few special catalogues. He has received his orders from the export commission houses and has been paid prompt cash for his goods as soon as they have been placed on board the steamer in New York or other ports of shipment. He has also been relieved

to a great extent from the claims from foreign buyers when the goods shipped are of inferior quality or not according to the order, or not shipped on contract time. Since the buyer looks first to the commission merchant, and holds him responsible for any deviation from his contract of purchase, the export commission house has shouldered the burden. It is the commission merchant, furthermore, who has stood all the expense of maintaining agents and salesmen in the principal commercial centres of Latin America, of sending special travellers from time to time, of employing experts acquainted with foreign languages to attend to the details of shipping, correspondence, making up of commercial and consular invoices in which the slightest mistake or deviation from the prescribed form will involve heavy fines in the foreign custom-houses, who advances the money to prepay freight and ocean charges, and who risks his capital in granting the long credits required.

While the field of the export commission house is narrowing from year to year, it nevertheless still has an important function to perform in the United States as well as in the United Kingdom and Germany, where it is even more strongly intrenched than it is here.

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CHAPTER VIII

THE EXPORTATION OF RAW MATERIALS AND FOODSTUFFS

Methods in General.—The methods used in the exportation of raw materials and foodstuffs, collected from the farms, forests, and mines of the nation, differ radically from those employed in the sale of manufactured products. Such commodities do not meet in foreign markets the keen competition found in the case of manufactures; as a rule they are eagerly sought by the populous manufacturing and commercial nations that depend upon other countries for the food and raw materials needed to nourish their population and supply their factories with the materials essential to industry. No extensive sales organization for the marketing of such products need be maintained in foreign countries. Cotton, grain, and other commodities are sold to foreign purchasers largely through operations conducted by dealers having connections in foreign markets. Prices are quoted and contracts for delivery are made by cable. Brokers not infrequently maintain offices in the great world markets, and, where practicable, sell from sample as directed by their principals. On the other hand, large foreign buyers often send their agents here to contract for their supplies.

In any case, there is little or no direct exporting by the producer, unless the product is one controlled by a few great corporations, as in the case of petroleum. The product leaves the hands of the producer long before it reaches the foreign buyer, who almost invariably purchases it from brokers or agents of large dealers who have secured

it more or less directly from its original owner. It is a well-recognized fact that our foodstuffs and raw materials pass through too many hands before they reach the consumer, and that the organization of middlemen that has been built up has become a burden alike to producer and consumer. The middleman undoubtedly has a place in production and distribution, but only when he serves a useful and necessary purpose. The methods by which the various raw products are collected and distributed are best understood by considering the most important in some detail. As a rule the producer does not know whether his product is to be consumed at home or exported. He sells it to practically the same agencies in either case, and it is not sold to foreign buyers until it has been concentrated in great quantities in the hands of a few big dealers. As our most important agricultural export is cotton, it will be considered first.

Cotton.—Little American cotton passes directly from the grower to English or other spinners. The greater part of the 6,000,000 bales annually exported passes through from two to six agencies between the grower and the spinner. These are successively the local storekeeper, the local cotton merchant, the buyer of one of the great cotton merchants of the central markets, the exporter, the English importer, the English broker, the spinner's agent, and finally the spinner.

Numerous variations may occur in the process, with the elimination of one or several of the agencies enumerated. For instance, the farmer may sell not to the local storekeeper but to the local cotton merchant or to agents of the great cotton merchants of the primary markets. Large growers may even consign their cotton to commission houses located at the principal ports. Again, the local storekeeper may eliminate the local merchant and also the buyers of larger houses, and may sell direct to English buyers or other importers.

The method used by the grower depends largely upon his financial condition. Those methods most commonly used fall under three heads, as follows:

1. Method used by the small farmer who needs credit.
2. Method employed by the farmer able to finance himself.
3. Method in vogue on large plantations.

1. The cotton farmer is usually in debt, and he finds it necessary to contract to sell his crop to the local storekeeper, from whom he obtains his groceries and necessary supplies on credit. As a rule such credit is extended to 40 or 50 per cent of the estimated value of the crop. Interest is charged on the account and high prices are the rule. As the raw cotton is picked, the farmer brings it to the storekeeper, before it is ginned. When he has delivered his entire crop, the merchant makes up his account, crediting or paying the farmer for the balance due him. There is no system of grading; the farmer is seldom an expert judge of his own product; consequently, he is never paid the highest price, but usually receives the price of medium or low grade cotton. The storekeeper himself is not the best judge of cotton; he has to grade down in order to protect himself. He sells to local cotton merchants or to cotton buyers representing large cotton dealers; very rarely he sells to spinners' agents.

2. Not all cotton-growers find it necessary to obtain credit from the local store to tide them over until their crop is marketed. In such cases, the grower takes his cotton to the gin, where the seed is removed and the cotton is baled. Then he disposes of it just as the local storekeeper disposes of the cotton he secures; that is, he sells it to the local cotton merchant or to a buyer representing the big dealers or spinners. If the price is low, the independent farmer may store his cotton in the local ware-

house owned by the local cotton merchant, to be sold later by the latter on a commission basis. While the farmer who is able to finance himself reaps a greater reward for his labor, his cotton, nevertheless, passes through many hands before it reaches the domestic or foreign spinner.

3. The large plantations are mostly owned by corporations or syndicates, which rent their land in small parcels to poor cotton-growers, either for a fixed rental or on a percentage or "share" basis. The corporation almost invariably owns a general store, which extends credit to the tenant for his season's supplies. It likewise owns a gin. When the cotton is picked, the grower delivers it to the store or gin, as the case may be, and receives whatever price may be determined upon by the company buyer. That the price is not the highest, goes without saying. After his account is settled, the grower too often finds that he has not enough money left to buy food and clothing for the winter, but, as he has no other resource, he continues year after year in the same unprofitable grind.

It is generally conceded that the farmers of the Southern cotton-producing States, who raise the bulk of the world's supply, seldom or never receive their just returns for their crop. The following statement, taken from the United States Department of Agriculture *Yearbook* for 1912, describes the situation:

Present methods of distribution of many agricultural products are indirect, wasteful, expensive, and even destructive. In this respect cotton suffers fully as much as any other crop. A complex commercial mechanism has been developed, many elements of which are distinctly not in the interest of the producer, the manufacturer, or the ultimate consumer. It is not too much to say that our present method is susceptible of a great deal of improvement at every step from field to factory. It has been estimated by close students of the question that the present slipshod and wasteful system entails an annual loss to the growers of from \$25,000,000 to \$70,000,000. It is impossible to do more than approximate the total loss, but it is certainly exceedingly large.

There are two well-defined tendencies in the cotton-producing sections that promise better marketing conditions for the future. The first is for the cotton manufacturer, both domestic and foreign, to buy direct from the cotton-grower, or at least from the local merchant who buys either from the grower or from the storekeeper. Thus brokers, factors, and dealers are eliminated. The other movement is for co-operative selling by the producers. The *Yearbook* of the Department of Agriculture for 1912 cites several examples of successful co-operative cotton-growers' associations. The growers of Montgomery, Ala., have constructed a gin and started a general store, where members receive credit. Warehouse facilities are also provided, where the cotton may be stored when the market conditions are bad. This association sells both to domestic and foreign buyers, though the greater part of the output is sold directly to Liverpool agents of English spinners. At Greenwood, Miss., a group of farmers organized a cotton buying and selling company; they handle their own output and that of other farmers who care to sell to them. The cotton-growers of Imperial Valley, Cal., some years ago organized along the lines of the Citrus Growers' Association of California, which so efficiently markets that product. An exchange and a bank were organized and warehouse facilities provided. When the cotton is ready for market, it is ginned and placed in the association warehouse, where it is graded by an expert. Then warehouse certificates are issued to the owners, upon which a loan may be obtained at the bank. While in the warehouse the cotton is insured. When the price is favorable, the cotton is sold through a broker to manufacturers or to cotton merchants, preferably to the former. The exchange and bank are not now directly controlled by the growers. With the general adoption of some such system, direct exporting of cotton by producers through their association would replace the methods now in vogue, whereby

some half-dozen middlemen take their toll from each season's crop.

Export cotton is shipped from the various local markets either to central markets of the interior or to the ports of shipment direct. At large shipping-points the cotton is compressed so as to reduce its bulk one-half. From the compress points export cotton may be shipped on a through bill of lading to the foreign point of destination.

English spinners purchase their American cotton in three ways:

1. Through buyers sent to the United States for that purpose.
2. From the Manchester or Liverpool branch of an American cotton merchant.
3. From English importers or brokers representing import houses.

Havre is the great French cotton-market. American cotton is sold there by American exporters either to import houses or to cotton merchants, through brokers. American cotton sold to Germany between 1900 and 1914 was shipped to great import houses at Bremen or Hamburg, which sold to German and other spinners. There was some direct importing of raw cotton by spinners.

In 1914 over 37 per cent of the raw cotton exported went to the United Kingdom, 30 per cent to Germany, and 12 per cent to France. From 80 to 85 per cent of cotton exports are shipped from the Southern and Gulf ports, Galveston leading with over two-thirds of the total, with New Orleans and Savannah next in importance.

The price of cotton, as well as of grain and other farm products, is influenced or determined by operations conducted on the great exchanges. These are corporations, organized to promote the buying and selling of certain commodities by their members. The trading is not done by the exchange but by the individual members. The

two great speculative cotton exchanges of the United States are those at New York and New Orleans. A comparatively small amount of actual or spot cotton is bought or sold on the New York exchange, though New Orleans is a spot as well as a speculative market. Liverpool is the great cotton exchange of England. Many States of the cotton belt have enacted laws prohibiting the sale of cotton futures. It is worth emphasizing that cotton exchanges were in their origin primarily associations of merchants and were intended to facilitate the business of such merchants. Although spinners (the consumers) and planters and growers (the producers) are sometimes members of exchanges, the basis of such organization is the cotton merchant. The merchant is a dealer in actual cotton. He may buy either directly from the grower or from so-called interior merchants, who are practically storekeepers and who collect cotton directly from the grower. Such a merchant, it may be noted, is generally spoken of in the trade as a "buyer," the term having a technical sense. Other cotton merchants who receive cotton on consignment to be sold on a commission basis are known as "factors." They sell their cotton to cotton "buyers" and seldom directly to spinners. There are thus two sets of middlemen. The number of factors, it may be noted, has decreased heavily in recent years. A cotton exchange also includes a great many brokers who may not handle actual cotton at all, but who simply act as agents for other interests, particularly for spinners, merchants, or speculators, either in the purchase or sale of spot cotton or of future contracts. Many brokers, it may be noted, deal exclusively in contracts and have nothing to do with spot cotton, while so-called spot brokers frequently have nothing to do with future contracts. Many speculators, particularly those conducting extensive operations, are members of cotton exchanges, as this entitles them to lower rates of brokerage and to other advantages not avail-

able to outsiders. Of course any one of the interests named may exercise the functions of another. Thus, a merchant may act as a broker or he may be a heavy speculator. A speculator in turn may be interested in the ownership of mills as a spinner.

The proper and professed functions of a cotton exchange may be briefly enumerated as follows:

1. The maintenance of suitable facilities for the conduct of business by its members.
2. The adoption of rules and regulations for the conduct of such business.
3. The collection and dissemination of useful information.
4. The maintenance of just and equitable principles in the trade.

The system of future trading in cotton and, for that matter, in other staple products similarly dealt in, is based on contracts on the part of the seller to deliver, and, consequently, on the part of the buyer to receive, at a time subsequent to the making of the contract, a certain quantity of the product at a stipulated price. So far as the operation of the contract is concerned, it is immaterial whether or not the seller, at the time the contract is entered into, has the product in his possession, and, in fact, the term "futures" is very generally associated with transactions made at a time when the seller does not actually have the product on hand. In this case he is, in the language of the trade, "selling short," relying on his ability, before the maturity of his contract, to obtain the product which he has thus contracted to deliver or to purchase another contract to offset the one thus sold. A future contract is, however, quite as properly such in cases where the seller has the goods on hand at the time of entering into the contract, provided the delivery is set for some future

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date. A "future" differs from a "spot" transaction in that the latter invariably represents goods actually on hand or instantly available at the time the contract is made, and, moreover, contemplates an immediate or an approximately immediate delivery.*

Cotton and other exchanges afford legitimate merchants the opportunity of insuring themselves against loss through fluctuations in prices by hedging, which is the offsetting of real transactions by speculative ones. Thus cotton merchants, manufacturers, or exporters buying large quantities of cotton for which there is no immediate market protect themselves against a fall in prices by selling contracts for future delivery. Then if the price of cotton falls, the merchant, though losing on the actual cotton he has purchased, gains an equal amount on the transaction in futures.

Similarly, the speculative market may be used by cotton merchants or brokers who make contracts with spinners for the actual delivery of a specified number of bales of cotton at a fixed price at a future date. Such contracts are frequently made before the cotton is available. If the price goes up before the merchant or broker obtains the cotton he has agreed to deliver, he will lose unless he hedges. He does this by buying on the exchange cotton futures for delivery at the specified dates. Then if the price advances, he loses on the actual cotton he must purchase and deliver to the spinner, but he gains correspondingly on the cotton futures he purchased. The speculative market thus becomes an insurance against loss in legitimate business transactions.

Wheat.—The exportation of wheat is mostly in the hands of the great grain dealers that control lines of elevators found in every big producing section. Following the harvest, the farmers haul their grain to the local markets

* United States Bureau of Corporations: *Report on Cotton Exchanges*, part I, 1908.

in two, four, or six horse wagons, or in motor-trucks, some of them especially constructed for this purpose and known as grain-tanks. In these local markets the farmer either stores the wheat in a storage elevator or sells it to one of the elevator companies. The elevators are owned either by local grain dealers or by the corporations owning extensive elevator lines and having headquarters in such primary markets as Chicago or Minneapolis. In some cases a number of farmers form a co-operative association, build their own elevator, and hold their grain until market conditions seem most favorable. Such an association usually maintains an agent at one of the primary markets, who eventually makes the sale to one of the big grain dealers located there. There is some competition between the local grain dealer, who buys from the farmers only to sell again to the big dealers or to the milling companies, and the line elevator companies, which not infrequently enables the producer to receive more for his crop than would otherwise be the case. The dealers controlling the line elevators often send buyers out to the farms during or after the threshing season to negotiate with the farmers for the sale of their wheat; their success depends upon the price offered and upon the farmers' need of immediate returns for their crop. If the farmers believe that the price is going up, they may store their wheat in elevators at a fixed price per month, and borrow from 80 to 90 per cent of its market value from the local bankers, putting up their elevator receipts as collateral.

Whatever the immediate method employed by the farmer in the disposal of his crop, that for export eventually comes into the possession either of the big milling companies or the big grain dealers located in the primary markets. It is then exported, either as wheat or as flour, as the case may be. Minneapolis is the greatest flour-milling city of the continent. It is situated in the heart of the wheat-producing country, and has unlimited power supplied by

the Falls of St. Anthony. Flour exported from Minneapolis goes mostly by rail to the Atlantic ports.

The greatest wheat-market is Chicago, where millions of bushels of wheat are assembled and distributed each year. Duluth, Kansas City, St. Louis, and Milwaukee are other grain centres. Export wheat flows from the producing regions of the Northwest in three general directions, east, west, or south. The eastern channel is by way of the great lakes, or the railroads paralleling the lakes, to Montreal or New York or other Atlantic ports. The southern route, taken by the wheat of Kansas, southern Illinois, Oklahoma, and Texas, finds its outlet at New Orleans or Galveston. The wheat of the Northwest—Washington, Oregon, Idaho, and western Montana—is shipped to Portland or to the Puget Sound ports. California wheat intended for export is assembled at San Francisco. Most of the wheat shipped from the Pacific coast ports goes to England, though a part of it is sent to the Orient. Pacific coast wheat is handled in sacks instead of in bulk, as it is shipped in cargo lots, and there is danger of a full cargo of grain shifting. Grain warehouses instead of elevators prevail in this region. Most of the warehouses are provided with conveyers, operated by steam or electricity, for handling the sacks and loading them on shipboard.

While some Pacific coast wheat is handled by various co-operative growers' associations, which have agents at the ports who sell to exporters, most of the wheat for export is purchased directly from the growers by agents of the big wheat companies, which export only a part of what they buy. These firms have close trade connections with buyers at European markets, maintaining representatives there. The wheat is usually sold before it is shipped, frequently before it is purchased from the farmers. The journey from San Francisco to Liverpool in the ordinary sailing vessel consumes four or five months, and if the wheat

were not sold before shipment, price fluctuations might be so great as to cause heavy losses.* The exporter pays the marine insurance and, after the consignment is delivered at its destination, the ocean freight. However, prices quoted in England for cargoes of Pacific coast wheat "to arrive," regularly include ocean freight and marine insurance, so the exporter, in drawing upon the European buyer, must deduct in his draft the amount to be paid for ocean freight. After the buyer examines the wheat on its arrival in England, if he is not satisfied with the grade, he may appoint an arbitrator and call upon the seller to appoint another, the two having power to choose a third. The board thus chosen decides the matter in controversy. Shipments to Europe are frequently made to a port of call. Sailing vessels are often chartered to go to Falmouth, Queenstown, or Plymouth, in the British Isles, where orders are given as to final destination. For steamships the port of call is usually St. Vincent, in the Cape Verde Islands, or Gibraltar.

Cattle.—Cattle, which were formerly exported on the hoof in great cattle-boats, now reach the foreign market in the form of dressed beef, or of dried or canned meat. Cattle for export are sold in the same way as those for domestic consumption. The cattle are shipped from the great ranches of the West to the cattle-markets of Chicago, Kansas City, Omaha, and Minneapolis, which are also the great meat-packing centres. Here they are placed in the stock-yards, where brokers or representatives of the leading meat-packing concerns purchase them at the market price. There are also cattle buyers in nearly every State, whose business it is to purchase from the farmers having only a few head of stock for sale each year. These are assembled and shipped in car-load lots to the central markets and handled in the same way as the range cattle.

* United States Department of Agriculture. Bureau of Statistics, *Bulletin* no. 89.

Cattle are thus sold by the producer either directly to the meat-packing concerns which control this industry or to a middleman or broker who sells to these concerns.

The refrigerator-car, which came into general use in the late seventies, has made it possible to centralize the slaughtering and meat-packing industries at a few points, where cattle are shipped alive from the range or from the farm. Ocean steamers have refrigerator-rooms in which the chilled or frozen meat is conveyed to the European markets.

Swine and sheep exported are handled in the same way as cattle. The surplus of food animals for export is decreasing as the area of the rangeland decreases, though, with a fair price insured and favorable marketing conditions, farmers could and would greatly increase the production of cattle and other farm animals. As the number of cattle on the ranges decrease, the number produced on farms and fed on alfalfa and other field crops can be made to correspondingly increase. There is no doubt that the discouraging conditions in regard to transportation and prices that the cattlemen have experienced in the past has had much to do with the comparative decline in this industry.

Tobacco.—Over one-third of the tobacco of the world is grown in the United States, and about one-third of this is produced in the single State of Kentucky. Louisville, Ky., is the greatest tobacco-market in the world. As tobacco is a crop requiring much labor, it is usually grown by farmers in comparatively small quantities in conjunction with other crops, and not on great plantations as under the old system of slave labor.

About one-third of the crop, or 350,000,000 pounds, is exported, either by dealers, exporting houses, or the agents of foreign buyers. The United Kingdom has been the biggest buyer, with Germany next. Tobacco is exported in casks or hogsheads, weighing on the average 1,000 pounds, or in bales weighing about 120 pounds.

A large part of Southern tobacco is sold at auctions held

in the local markets. The growers haul the tobacco to the nearest market and place it in public warehouses, where each lot is weighed and tagged, and auctioned off to the highest bidder, the grower reserving the right to reject all bids. The auctions are operated under state and local regulations. Some tobacco is delivered by the grower packed in hogsheads. This is called "prized" tobacco, and is sold by sample.

Not all tobacco is sold at auctions. Part of the Southern crop and practically all of that grown in the North is sold at private sale, either at the farms or after being hauled to the local market. The buyers of tobacco for export may be representatives of large tobacco exporters, or may be dealers who later sell to exporters. Foreign manufacturers sometimes send buyers to the United States who buy either from the growers or from dealers. Some of the big tobacco manufacturers export raw as well as manufactured tobacco. The consolidation of the tobacco-manufacturing industry has decreased the number of buyers in Louisville and elsewhere.

Even free-trade England levies a tariff on tobacco imported, the object being to produce revenue. The broker or manufacturer importing the tobacco has it placed in a bonded warehouse, thus avoiding the payment of the duty until he is ready to use the tobacco. It usually remains two years in this warehouse, as a reserve supply in case of crop failure is thus assured, and the tobacco is improved by seasoning.

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CHAPTER IX

EXPORT DOCUMENTATION AND FREIGHT FORWARDING

The Documents and Details of an Export Shipment.—The care and exactness required in making out the documents incidental to every export shipment have discouraged many a small manufacturer from attempting direct exporting. The number and character of the documents differ somewhat in accordance with the country of destination, and this adds to the difficulties of the subject. However, exact information as to the rules governing shipments to each country may be obtained from the Bureau of Foreign and Domestic Commerce and also from the consuls of the respective countries. In general, the documents required are the commercial invoice, the railroad and steamship bills of lading, the export declaration, the insurance policy or certificate, the consular invoice, and the draft. There are other documents involved in the details of making shipments, and the use of these will be best understood by following an export shipment from the time the order is received until it leaves the United States port.

After an order has been received by a manufacturer, and is assembled ready for shipment, it is packed strictly according to instructions or to the known requirements for goods destined to the point in question. A packing or shipping list is made out for the convenience of the shipping department, and the export invoice is filled out with the greatest care and exactness. When the goods have been properly packed and each case or package plainly marked with initials or other letters or characters, they are delivered, in the case of inland manufacturers, to the railroad, and a bill of lading secured. There are usually three copies

of the bill of lading. These, together with three copies of the export invoice, are immediately mailed to the agency, branch, or employee at the port, that is to take charge of the forwarding of the shipment from that point.

When the goods arrive at the port, the agent must secure a shipping permit from the steamship company, claim the goods from the railroad by presenting the bill of lading, make arrangements for the hauling of the shipment to the steamship pier, prepare and have certified the required number of copies of the consular invoice, make out and attest an export declaration on forms provided by the United States Custom-House, have this properly certified by a customs official, prepare the steamship bills of lading on forms provided by the steamship company, prepay the freight, and secure the signature of the steamship agent to the bills of lading, and deliver the export declaration to this official, to be used in the clearance of the ship. Unless the insurance policy has been taken out before shipment, this must also be attended to. In case of a blanket policy, under which different shipments may be made upon the issuance of an insurance certificate, the latter is procured by the manufacturer and forwarded to the shipping-agent at the port along with the railroad bill of lading and the invoice. With this general review of the details incident to making an export shipment, each of the important documents will now be considered at some length.

Export Invoices.—The heading of the export invoice gives the name of the shipper and of the consignee, with the address of each; the name of the steamship on which the goods are carried; the distinguishing marks, initials, or numbers by which the various packages or cases constituting the shipment may be identified; the number of packages or cases included in the shipment; and, in most cases, a code word that may be used in applying to the whole invoice in cable communications.

In the body of the invoice are stated the number of packages or cases with the outside measurements and cubic contents of each, the number of articles contained in each package, an exact and specific description of each article included, the price of each article, the total price of all articles contained in each package, and a footing showing the value of the entire shipment. The exact nature of each package, as box, barrel, bale, crate, or cask is designated; each article is specifically described as to the material of which it is made, its use, and the parts belonging to it, where these are packed separately. For instance, a desk is described as made of oak, with brass knobs; chairs, of oak frames, with leather seats and hair stuffing. The words furniture, hardware, groceries, cloth are not used, but sofas, hammers, canned corn, and cotton unbleached cloth are substituted, as being more specific. Every article in the shipment is included in the invoice, though it may not have any commercial value; this applies to catalogues, calendars, and other advertising matter. The prices are usually expressed in United States money; it was formerly the custom to change this into English money after the footing was made, but since dollar exchange has become so firmly established, this is no longer the rule.

The letters "E. & O. E." are found on many export invoices. They indicate "Errors and Omissions Excepted." As a rule abbreviations are avoided, as their use may result in confusion and misunderstanding. As export invoices eventually pass into the hands of foreign customs officials, every effort is made to expedite the clearance of the goods by making the invoice specific, detailed, complete, exact, and clear in every respect. Where even a slight discrepancy is found between the description of goods in the invoice and the actual contents of the packages, heavy fines may be imposed by the foreign customs officials, and costly delays result.

It is not customary for the full name and address of the

consignee to appear on the packing-cases; hence, it is important that the numbers or letters or characters used be indicated clearly on the invoice, with absolutely no deviation from the mark as it actually appears on the packages.

A knowledge of the customs regulations of the countries to which goods are shipped is all-important for the export shipping-clerk. Without such knowledge, it is impossible for him to avoid costly errors, serious misunderstandings, and the piling up of many claims. With study, care, and exact attention to details, the making out of export invoices becomes a simple task.

The Shipping Permit.—Even when arrangements have been made in advance for steamship space on a specified date, it is necessary to secure a shipping permit from the steamship agent before goods are delivered at the pier. This permit specifies the goods to be shipped, the number of packages, the steamer, and the day or days on which they may be laid down at the pier. When the freight is delivered, a dock receipt is issued, which contains a memorandum of the number of cases or packages, the marks thereon, and the weight and cubic contents of the same.

Consular Invoices.—Consular invoices are required by all of the Latin American republics except Uruguay. They are not required for shipments made to European or other countries. Those covering export shipments to Argentina, Brazil, Chile, Cuba, and Mexico may be written in English; for all other Latin American countries it is required that consular invoices be written in Spanish.

The consular invoice contains all of the information found in the commercial invoice, with such additional facts as may be required by the laws of the country to which the shipment is made. They are made out in triplicate on special forms obtainable from the consul of the country in question. They are prepared by the shipping-agent, and are then translated by a professional translator, who is thoroughly conversant with the specific requirements of

the republic to which the goods are consigned. The employment of an inexperienced translator often leads to difficulties which may prove expensive in the long run.

When completed the consular invoice is presented to the consul for certification, the bill of lading being attached thereto. The certification of the bill of lading is required by some republics. The number of copies of the consular invoice required varies, some countries providing for as many as four, though three is the usual number. Specific information as to the requirements is obtainable by application to the consul of the foreign country; they are constantly being modified. The fee for consular certification varies according to the country in question and to the character and value of the shipment. In some cases it is merely nominal; in others, a percentage of the value of the goods is charged, which may make the cost of this document an important item.

Shipper's Export Declaration.—The United States customs regulations require that the shipper or his agent prepare and file an export declaration for every shipment to foreign countries. This declaration is made out in duplicate on forms provided. The original is left with the collector of customs and the duplicate delivered by the shipper or his agent to the steamship officials. Clearance, or permission to leave port, is not granted a vessel until such a declaration has been filed for each part of the cargo with the collector of the customs. The declaration as filled out by the shipper contains an accurate description of the articles contained in the shipment, a specific description of the number and kinds of packages, and of the quantity in tons, pounds, gallons, yards, etc. The value of the articles is stated on the original declaration, but need not be given on the duplicate copy. The duplicate, which does not disclose the value of the goods, is handed over to the shipper's agent at the port or to the carrier as proof of compliance with the customs requirements. The duplicate export dec-

laration must be certified by the collector of customs or his deputy before it is delivered to the carrier. The export declaration must be sworn to by the shipper or his agent, either before the collector of customs or before any officer authorized to administer oaths. No oath is required for exports sent by land nor for shipments valued at less than \$100.

Since the oath may be taken before a notary public, the inland shipper is thus enabled to make out and attest this document at the time the goods are shipped to the port, and to forward it to his agent at the port, along with the railroad bill of lading and the commercial invoice.

Railroad Bill of Lading.—A bill of lading is the written instrument issued by a common carrier when it takes possession of the goods to be transported. A bill of lading has three distinct uses: first, it is the receipt given by the transportation company to the shipper for the goods delivered by him to the company or carrier; second, it is an agreement or contract for the transportation of the goods; third, it is a document showing the title to the goods shipped. It is signed by the shipper or his agent and also by the agent of the railroad company. It is usually necessary to present the bill of lading to the railroad freight-agent at the point of destination in order to secure possession of the goods, although this rule is not always enforced in the case of large and well-known shippers.

The bill of lading contains a description of the merchandise shipped, with the number of packages, the distinguishing marks on each, the weight, the freight rate, and the route all clearly specified. Railroad freight may or may not be paid in advance. Through bills of lading are sometimes issued, on which goods are carried not only to the port, but also by ocean-carrier to the foreign point to which they are consigned. Such bills of lading are the rule for shipments in car-load lots. Special railroad rates are granted on certain classes of exports, as well as of imports. These

apply only to car-load lots, and goods so shipped are on a through bill of lading to the foreign port. They are consigned in care of the railroad company's foreign freight-agent at the port of shipment, who attends to the details of transshipment. The commodities upon which such special rates are granted include grain, flour, pig iron, steel rails, and agricultural implements.

Steamship Bill of Lading.—Steamship bills of lading are made out on forms specially provided, which contain an exhaustive list of printed conditions under which the contract to carry the goods is made. The name of the shipper, and of the consignee, unless, as is most often the case, the goods are consigned to the order of the shipper, are given, as is also the name of the steamship and of the line to which it belongs. The merchandise is described in detail, with the number of packages, identifying marks, weight, and measurements of each.

Steamship bills of lading specifically state that lighterage charges, the cost of landing, wharfage, and all other expenses "beyond ship's tackle" shall be charged to the consignee or shipper. In other words, freight rates apply from and to ship's tackle, the tackle being the apparatus for raising and lowering heavy weights.

Another provision found in bills of lading is to the effect that the goods shall be received by the consignee at vessel's tackle "immediately upon her arrival at place of delivery, without regard to weather, and if the consignee be not on hand to receive the goods when discharged, the carrier may deliver them to any lighterman, wharfinger, or other party believed to be responsible, or they may be landed on wharf or beach or bank or stored in hulks or put in lighters for the owner and at owner's risk and expense." The necessity of notifying the consignee when he may expect a shipment to arrive is apparent.

Bills of lading are customarily made out to the order of the shipper and by him indorsed in blank, so that the title

to the merchandise remains with the holder of the bill of lading. Bills of lading drawn to the consignee or his order are not accepted by banks as part of a documentary bill of exchange presented for discount, because the holders of such bills of lading have no lien on the goods. In case the customer has paid cash, or cash against documents in the port of shipment, the bill of lading may be made out to his order.

Bills of lading are made out in triplicate, and the number of copies issued is always stated on the face of the document. This is because a bill of lading is a negotiable instrument, and the possession of any one copy entitles the holder to the possession of the goods, provided it has been indorsed in blank by the shipper. Additional copies that are unsigned may be made out for the use of the steamship company or for other purposes; these are valueless as far as the ownership of the goods is concerned. It is the custom to prepay the freight on export shipments, and many steamship companies require this. When the freight is paid, the agent of the steamship company signs the number of copies indicated on the face of the bill of lading and delivers them to the shipper or his agent.

The bill of lading is sent to the consignee, either through a bank with draft attached, or direct by mail.

Railroads and other carriers of domestic shipments make delivery quite generally without presentation of the bill of lading. This is not done in the case of ocean freight. The bill of lading is evidence of title to the goods and must be presented to the ocean-carrier in order to gain possession of them. The consular or commercial invoice must also be in the hands of the consignee before he can have the goods passed through the custom-house. It is of vital importance that these documents reach the consignee or his agent as soon as the goods arrive, or at an earlier date if possible. For the documents to miss the ship on which the goods are carried invariably leads to serious difficulties,

unless mail service is much more frequent than is the case to most ports. The customs requirements of most countries provide that goods be taken from the custom-house promptly. In Latin American countries and in some others fines are assessed the consignee when he fails to claim and remove the goods within a specified number of hours. Failure of the shipping documents to arrive thus proves costly, as well as inconvenient, and sometimes results in the rejection of the shipment by the consignee.

The Shipper's Agent at the Port.—The necessity for the inland manufacturer to have an agent or employee at the port of shipment is apparent. This representative, as previously explained, claims the merchandise, has it transferred to the dock, and attends to the documentation and shipment. In order to avoid delay, the representative is usually given the shipper's power of attorney; he is thus enabled to make oath to the correctness of the consular invoice, and to the shipper's export declaration, where this has not been made out and attested by the shipper in advance. If a credited representative with power of attorney to act for the shipper is not maintained at the port, it is necessary for the documents to be mailed back to the shipper for proper indorsement and oath, thus entailing delay that may result in their missing the boat. Some inland shippers avoid this difficulty by employing a forwarding agent who is authorized to make the shipment in his own name.

Since specific knowledge, absolute exactness, and unvarying promptness are all required in attending to the documents and details involved in making an export shipment, it follows that there are numerous agencies that make it their business to attend to this work for inland and other shippers. These agencies include freight-forwarding companies, manufacturers' export agencies, transfer companies, and foreign freight-agents of railroad and steamship companies. The manufacturer who has only a small

volume of export business usually finds it to his advantage to make use of one of these agencies, while a firm having a large export trade maintains a branch office at the port. The services rendered by each of the agencies may be briefly considered here.

Freight-Forwarding Agencies.—There are in New York, Philadelphia, Boston, New Orleans, San Francisco, and other ports large companies organized for the specific purpose of forwarding export shipments for manufacturers or others. The forwarding charges are usually based on a percentage of the value of the goods, and are charged, by agreement, to the consignee. In case of c. i. f. quotations, they are included in the price quoted. Reliable forwarding agents make a reasonable charge for their services, and handle all shipments intrusted to them promptly and expertly.

As soon as the forwarding agent receives the railroad bill of lading and the invoice, he claims the goods, which have been consigned to him, takes out the shipping permit, has the goods transferred to the pier, attends to completing the documentation, pays the ocean freight, the consular fees, and all other charges, and arranges, in many cases, for the negotiation of the draft at a bank or through a broker. He then adds the total shipping expenses, including his own charges, to the footing of the export invoice and fills in the full amount on the draft, which has been drawn by the shipper in blank. He then takes the documents to the bank as promptly as possible, so as to allow ample time for their examination. If found correct and satisfactory to the minutest detail, the bank does one of three things, according to previous agreement.

1. It discounts the bill of exchange and credits the proceeds to the shipper or his agent.

2. It accepts the draft, thus enabling the shipper to discount it, either at that or at some other bank. In this case, the draft has been drawn, by previous agreement, not

on the consignee but on the bank. This does not prevent another draft, drawn on the customer being made and forwarded for collection.

3. It forwards the documents to its branch or correspondent bank located at or near the place of destination, where the draft is to be either accepted or paid, as explained in the chapter on financing export shipments.

Manufacturers' Export Agents.—Those manufacturers who are not prepared to maintain a branch office at the port of shipment often have recourse to export agents, who represent a group of manufacturers. The compensation is usually on a commission basis. Such agents handle the export shipments intrusted to them in precisely the same way as do other freight forwarders. Hence, their services in this direction need not be elaborated. But a manufacturers' agent often undertakes to perform other services, such as the distribution of catalogues and samples and the obtaining of orders, whether domestic or foreign. The foreign business obtained comes mostly through export commission houses, which find it convenient to place a foreign order with the agent in the field rather than with a manufacturer at a distance.

Other Forwarding Agents.—The other agencies that may be employed by the manufacturer to attend to the forwarding of export shipments at the port are transfer companies and the agents of railroad and steamship companies. The work of these is exactly similar to that of the freight-forwarding agencies already described. Nearly all of the large railroads maintain export agents at the various ports, whose duty it is to attend to the details of shipping export freight that has been carried from the interior to the port over their company's lines. Many steamship companies likewise have agents who may be employed to attend to the foreign shipments. Large transfer companies maintain an export department in charge of an employee competent to attend to the details of making export shipments. The charges do not differ from those made by other forwarding companies.

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CHAPTER X

IMPORT MACHINERY AND METHODS

Import Regulations.—In order to enforce the customs laws and regulations of the United States, definite rules governing the importation of merchandise are in force. These provide for the taking out of consular invoices at the place of purchase or shipment, for the following of a fixed procedure in the clearance of imports through the United States Custom-House located at the port of entry, describe the exact methods to be followed in the examination and appraisement of the goods by customs officers, and clearly set forth the conditions under which imported merchandise may be placed in a government bonded warehouse and kept there until the importer is ready to pay the duty and remove the goods. Goods that are on the free list, as well as those upon which an import duty is assessed, must be cleared strictly in accordance with the rules provided by law.

The purpose of these laws and regulations is twofold: first, in order to facilitate the collection of the duties on imports, which make up a large part of the revenue of the federal government; second, to enable the government to collect accurate statistics of articles imported, including their price, quantity, source, and destination. It often happens that goods imported are later exported; in that case, where an import duty has been paid, it is refunded in the form of a "drawback" providing proof is produced that either the specific articles or the raw materials from which they were manufactured were imported and duty paid

thereon. A great convenience for importers is the use of government bonded warehouses, where goods subject to duty may be placed, the collection of the duty being deferred until such time as the importer may wish to gain possession of a part or all of the goods. The interest saved by thus postponing the payment of duties amounts in the aggregate to a huge sum. Importers thus find it desirable to purchase staple articles from abroad in large quantities, thereby securing price concessions, a policy that would be impracticable if the full amount of the duty was exacted upon the entry of the merchandise.

Import Documentation.—The documents required in the importation of goods are the consular invoices, the bill of lading, and the import declaration. For all goods imported into the United States to the value of \$100 or more, there must be taken out a consular invoice, certified to by the United States consul at the point of sale, manufacture, or shipment. Three copies of such invoice are made out. One copy is kept by the consul, one is forwarded by the consul to the collector of customs at the port to which the goods are shipped, and the third copy is given to the exporter. This third copy is stamped with the official seal of the consul and the revenue stamp of \$2.50 is affixed to it. The consular fee is thus uniformly \$2.50. If the shipper desires, a fourth copy may be made out for his files. Two forms of consular invoices are in use. One is on blue paper and is used when the merchandise has been purchased outright; the other is on white paper and is issued when the goods are shipped on consignment to the United States, their ownership remaining with the shipper.

Each shipment must be entered at the United States Custom-House within forty-eight hours of the official entry of the vessel. The entry of a vessel is made by the depositing of the ship's papers at the custom-house. In the same way, the entry of a shipment is made by depositing at the custom-house the consular invoice, the bill of lad-

ing, and an import declaration. The import declaration must be made out on forms provided by the Treasury Department or approved by that department. In this declaration the importer or his agent must declare that the invoice contains an accurate account of the goods contained in the shipment, and that it correctly and fully specifies the exact cost of the goods, as well as the value of all cases, boxes, and crates in which the goods are shipped, and of the cost of packing the goods for shipment. He must further declare that no discount or bounty has been received and that no other invoice or bill of lading exists, and that no effort whatsoever has been made to defraud the United States Government of lawful duties. The importer is also required to promise that if any error in the invoice is later discovered, he will immediately report such error to the collector of customs of the district. The import declaration contains a complete description of the goods, the number of packages included, the contents of each package, the cost of each article in the money in which the invoices are made out, and other details. If there is any defect in either the invoice or the import declaration, goods are placed in the custody of the collector in a warehouse, where they are kept until their value is determined.

Different entries may be made. Goods not subject to duty and those needed immediately are covered by an import or consumption entry, and are released as soon as they can be examined by the customs officials, and the duty, where there is one, is assessed and paid. Goods destined for an interior point may be shipped in bond in sealed cars, and the goods cleared there. Goods which it is desired to place in government bonded warehouse are subject to special conditions. The importer is required to furnish a bond guaranteeing that the goods will be withdrawn within three years of the date of entry and that the duty will be paid upon withdrawal.

Bonded warehouses, under strict government control,

are provided for the convenience of importers who do not wish to gain immediate possession of imports. The goods in this case are placed in bonded warehouses and held until the duty is paid. As this duty is often a very large amount, the saving in interest to the importer is an item of importance.

Bonded warehouses are usually owned by the government, but they may be the property of private individuals or firms, located near the factory or other place of business of the individuals or firms owning them. In either case they are built in strict conformity to government specifications and are fireproof. Warehouses of this kind are often built in the interior of the country, far from the port of entry.

Each bonded warehouse is in charge of a government official whose title is that of storekeeper, who keeps exact account of all merchandise brought into or removed from the warehouse. No goods can be withdrawn from a bonded warehouse without a written order or permit from the collector of the port through which the shipment entered the country.

Goods may be withdrawn from a bonded warehouse in quantities desired by the importer, the duty being paid on the portion desired before their removal.

American manufacturers whose trade is largely with foreign countries find it convenient to bond their factories to the government, which converts them into bonded warehouses under government regulations. They can then have the raw materials imported brought to the factories under bond, and, without paying duty, manufacture these materials into finished goods and export them. Where practically all of the raw materials used in a plant are imported, such a procedure has advantages over paying duty when the materials are received and then securing a drawback of the duty paid when the finished products, manufactured from the imported materials, are exported.

The Appraisement of Imports.—A preliminary appraisement is made by customs officials and duties assessed according to the value and character of the goods as set forth in the documents. Only a part of a shipment is ordinarily subjected to examination; unless it is found that there is some discrepancy between the description and the goods, or unless there is some other reason for suspecting the honesty of the importer, the entire shipment is delivered to the importer as soon as this partial inspection is completed. If the importer is anxious to obtain immediate possession of the goods, all but the part to be examined may be delivered to him upon the filing of a bond guaranteeing the return of the goods delivered if such return should be required. A delivery permit is issued by the customs officials for each shipment or part of shipment to be withdrawn by the importer.

Import Methods—Manufactures.—Having briefly reviewed the methods by which imported merchandise is passed through the United States Custom-House, we will proceed to a consideration of the commercial channels through which the products of foreign countries pass from the producer to the American importer. About 40 per cent of our imports consist of wholly or partly manufactured articles, the major portion of which are cotton, woollen, silk, and linen textiles and their manufactures. Leather, paper, wood, and their manufactures, art works, china-ware, jewelry and precious stones, millinery, clocks, watches, and furs are other manufactured articles imported each year to the value of millions of dollars. For the most part, such articles are imported by wholesale mercantile establishments and by large retail stores carrying on business in the leading cities. Both of these maintain special representatives or buyers abroad, who devote their entire time to keeping in closest touch with the markets, the changes in styles, and the leading sources of supply. In addition to these resident buyers, others are sent abroad from time

to time to secure special classes of goods, more particularly those greatly affected by the prevailing modes. Smaller wholesale and retail mercantile establishments make their purchases through buying agents located in Paris, London, Berlin, Dresden, and dozens of other trade centres. These agents may represent the goods of one or more manufacturers, or may buy in the open market; they may make purchases for two or three American importers or for scores of them, according to the nature of the merchandise handled by them and to other conditions. The methods employed are so varied that it is impossible to give in brief space a complete classification. However, the buyers representing American importers, whether they be employed by one firm or by a score, all look to practically the same source for the goods desired. That source is largely dependent upon the particular goods to be purchased. Parisian millinery and wearing apparel are purchased from the manufacturer, who is often a famous modiste employing hundreds of work-people. Laces, embroideries, and trimmings may be purchased direct from the manufacturer or from a manufacturer's agent. In the case of hand-made goods, the buyer seldom comes into direct contact with the workers or their employers, but buys from a collector who purchases the goods outright and sells them to foreign buyers.

Many staple manufactured articles are purchased by American importers through export commission houses located in the different trade centres, thus obviating the necessity of maintaining special buyers abroad. A very large percentage of both German and English manufactured goods are sold through these agencies, though their ascendancy is greatest in exports sent to Latin America. Oriental wares are purchased through great mercantile houses situated at the ports, through export commission houses, through brokers, or by special buyers, just as in European markets.

A custom handed down from the Middle Ages is the marketing of goods through merchandise fairs, held at stated intervals at certain trade centres. Such fairs still persist in some parts of Europe. Those still drawing buyers from other nations, including the United States, are the famous ones held in Leipzig, Frankfort, Lyons, and Nizhni Novgorod. By far the most important of these has been the Leipzig fairs held at New Year's, Easter, and Michaelmas. Buyers from all parts of the world have attended these, to view the advance display of manufactures for the next season and to give orders. The value of the annual sales made at these fairs is estimated at \$50,000,000. The merchandise displayed has consisted principally of furs, for which Leipzig is the great world market, glass, cloth, leather and leather manufactures, woollen goods, carpets, and musical instruments. In 1915 and 1917 both the United Kingdom and France made an effort to revive their olden-time fairs. The fair held at Lyons, France, in March, 1916, was a notable success, being attended by many buyers from America and other lands. Orders were taken for over \$10,000,000 worth of goods, and nearly as many more had to be refused because of the inability of the manufacturers to promise delivery in the near future. This fair is held annually. Silks, laces, and other distinctive French manufactures are displayed, as well as many other products. Another fair was held in the Victoria and Albert Museum, London, in February and March, 1917, at which exhibits of toys, earthenware and chinaware, glass, notions, stationery, and other manufactures were made, and orders were taken from buyers. At the same time a fair was held at Glasgow, Scotland, at which textiles, clothing, canned and preserved food products, boots and shoes, and other articles were exhibited by manufacturers. The success of these attempts points to a wider use of these world markets in the future.

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CHAPTER XI

THE IMPORTATION OF RAW MATERIALS AND FOODSTUFFS

Methods in General.—While the same legal regulations apply to the importation of raw materials and foodstuffs as to manufactured articles, each of the great staple commodities is handled by a method developed from long years of custom, and each has distinguishing features of importance. Just as in the exportation of raw materials and foodstuffs from the United States there is found a complicated system of middlemen and specialists, with prices and grading of products influenced or determined by the speculative exchanges, so we find more or less complicated machinery in our import trade in the staple articles. The great staple raw materials and food products which we import in large quantities are wool, hides and skins, india-rubber and gutta-percha, coffee, sugar, tea, and silk. The trade channels through which each of these passes from foreign producer to the American manufacturer or distributor will be considered separately.

Wool.—The United States is second only to Australia in the production of wool, the annual clip averaging about 300,000,000 pounds, which is between one-ninth and one-tenth of the world's total wool production. But our consumption of this commodity is so great that we find it necessary to import each year about two-fifths of the amount consumed here. The domestic wool is of two classes, both of fine quality, suitable for the manufacture of cloths, dress-goods, and other fabrics. We do not produce a sufficient quantity of these classes of wool to supply our needs, but import about one-fourth of such wool used.

Other wool imported is the coarse variety produced mostly in Persia and Asiatic Turkey used in carpet manufacturing. There are also other classes of wool imported, notably that of the alpaca, the Angora goat, and the Cashmere goat.

The following table, giving our production and our importation of wool, in millions of pounds, for different years,

Year	Production	Imports
1891.....	285	129
1900.....	288	156
1907.....	298	125
1910.....	321	264
1911.....	318	137
1912.....	304	193
1913.....	296	195
1914.....	290	247
1915.....	285	308
1916.....	288	584
1917.....	281	372
1918.....	299	379

shows how our consumption of this product has increased. The exports of raw wool average less than 5,000,000 pounds annually.

For many years London was the foremost wool-market of the world. In the great wool exchange there was assembled each season practically the entire wool-clip of the world. Thither came wool manufacturers or their representatives from every country in which wool was manufactured, to purchase their year's supply at the great auctions held at the wool exchange. The advantage of thus assembling the wool of the world in one market was principally due to the fact that there are many different grades of wool, each having its special use, and the manufacturers were thus enabled to select the different kinds required all at one time. The producing countries have for some years been making great and successful efforts to have these

annual auctions held within their own borders, and the entire clip of Australia, the greatest wool-producing country, is now sold at auctions held at Melbourne and Sydney. These sales are attended by wool manufacturers from every land, who, however, must look elsewhere for the grades of wool not grown in Australia. The great wool-consuming countries have likewise challenged London's wool supremacy, with the result that Boston, New York, Philadelphia, Bremen, Hamburg, Antwerp, Amsterdam, and other cities annually hold great wool-auctions attended mostly by domestic buyers. London is still the greatest international wool-market, though Boston actually handles a larger volume of that commodity. The wool handled in Boston is largely of American production, while that sold in London comes from many lands. Only recently has South American wool been handled in London; it is of a coarse variety which English manufacturers have refused to use. French and German manufacturers have used it to advantage, and by a long process of patient experimenting have succeeded in devising methods of working it up into cloth having an even finer and softer finish than that made of finer wool.

Most of the wool imported into the United States is purchased at the London auctions or at the auctions held in Australia, New Zealand, or South Africa. It is either purchased through brokers or from wool merchants, and is usually selected by the manufacturer or his representative in person.

Henry B. Smith, in *The Sheep and Wool Industry of Australasia*, thus describes wool-selling in Australia:

The wool is offered in large, well-lighted stores, and is on view from six o'clock in the morning, at which hour buyers can be seen making a start, the light being quite good.

Two brokers' catalogues are offered daily, with a few exceptions, the combined offerings being limited to 12,000 bales per day. Buyers therefore need to start early if they wish to view all the wool

offered, as the sale starts punctually at three o'clock of the same day the wool is shown.

The auctioneer at a wool sale very seldom has to ask for a bid. Usually as soon as he mentions the catalogue number of the lot being offered, the buyers fairly shriek and yell at him the price they are willing to pay, every one in the not unmusical choir trying to yell his bid louder than the other.

The lots are knocked down and sold quicker than the average person can write down the price bid. The sale being over, the wool-brokers have the invoices for £100,000 to £120,000 worth of wool in the hands of the different buyers the same evening or the first thing the following morning.

The speed with which everything connected with wool-selling in Australia is effected is truly wonderful; it speaks well for the system and manner in which the sales are conducted by the selling brokers. . . .

Farmers are supplied by the selling brokers with printed weight-books and other necessary printed forms. . . . Most of the stores have a railway-siding running alongside, the bales being unloaded from the railway-trucks right on to the store platforms, thus avoiding all town cartage expenses. Most of the brokers have an up-to-date shearing-shed on the premises. A sum of sixpence per sheep is charged for shearing; this includes cost of classing, baling, and branding the wool.

The way in which the wool merchants and brokers come into possession of the bulk of the wool-clip of the world is of interest. In nearly every country there are expert wool-buyers, representing wool merchants or, occasionally, wool manufacturers, who make it their business to go from place to place for the purpose of buying the wool produced in each section. These buyers purchase the wool either from the grower direct, from local wool-dealers, or from local storekeepers, the latter having taken the wool in trade from their customers. The large wool-growers prefer to sell to these buyers, thus eliminating the local middlemen, but they are not always able to do so, as they are often obliged to go in debt for their supplies before the wool is ready for market. In this case, they must deliver their clip to the local merchant who has extended the credit.

This merchant may be the general storekeeper, a dealer in wool with strong banking connections, or a commission merchant. In Australia, as soon as the wool is placed in the warehouse and before it is auctioned off to foreign buyers, further advances are made on it by the local dealers. The fact that the wool is so often mortgaged in this way works to the disadvantage of the grower, who has to pay high interest rates and seldom receives the highest market price.

In England local fairs have long been held at which wool is sold by the growers to buyers representing wool merchants or wool manufacturers. Competitive bidding among buyers for the clip of large growers or for the stock held by a local merchant is also common in England and Scotland.

The methods used in marketing wool in the United States may be briefly outlined here. The wool grown in small quantity on the farms of the East and Middle West is sold by the farmer either to the general store or to local wool merchants. All kinds of fleeces are indiscriminately stuffed into bags and sold without any attempt at grading. The local buyer either consigns the wool to a commission house in a primary market or sells it outright to a buyer representing a Boston, Philadelphia, or other wool merchant. In either case, the price paid is determined by the poorest wool in the lot—which shows the loss sustained by the grower in neglecting to sort and grade his fleeces. The wool produced on the great sheep-ranches of the West is sold to better advantage. Wool-buyers representing either wool merchants or manufacturers keep in close touch with the producers, and often endeavor to make contracts for the purchase of the clip before the shearing season. Not infrequently, competitive bids are made by different wool-buyers either before or after the product is ready for market. These bids are usually in writing, and the grower is free to accept one or decline all. In Montana, Wyoming, and other great wool-producing States warehouses are

provided where the clip from each ranch may be stored. Buyers sample and bid on the wool thus stored. When the demand is brisk, the price obtained may be even higher than the market.

The function of the wool-buyer in international trade is one of importance, for through his hands passes all the wool of commerce. "The wool-buyer," says a recent writer, "must have at his fingers' ends not only the probable production each year of every part of the United States, but also of every wool-producing country on the globe. He must know as accurately what is going on in the London market as what the demand is likely to be in Lawrence, Mass. He must watch with equal care Boston, Buenos Aires, and Australasia. The successful wool-buyer must combine all his world-wide data and interpret them. Upon the soundness of his deductions depends a profit or loss which may reach millions in the aggregate."

Both the wool-buyer and his principal, the wool merchant of the primary market, seem to be necessary as intermediaries in the wool trade, since the grades of wool needed by the manufacturer are numerous. It is thus to the advantage of the latter to purchase from the carefully cleaned and graded stock of the wool merchant just the quantity and variety of wool he desires rather than to attempt to secure his supply from the growers.

Hides and Skins.—In looking over the list of imports of the United States for 1915, we find that "hides and skins, other than fur," were imported that year to the value of \$104,177,106, while leather and manufactures of leather exported were valued at \$120,727,156. This indicates the importance of our leather industry, which not only supplies our enormous domestic demand, but also has provided a surplus for export averaging over \$57,000,000 in normal years. The uses for leather are many, but boots and shoes, gloves, purses, hand-bags, suitcases, belts, harness, saddles, machine-belting, furniture and automobile upholstery are

the leading articles requiring this material. The domestic supply of hides and skins for the manufacture of leather falls far short of the demand, necessitating our drawing upon other countries for about one-third of our supply. The hides and skins most used are those of the cow, steer, calf, goat, sheep, chamois, pig, horse, colt, deer, alligator, kangaroo, bison, seal, and porpoise.

The centre of the leather-manufacturing industry of the United States has long been Philadelphia, which early developed this industry, largely because of the plentiful supply of the essential oak and hemlock, the bark of which is used in tanning. It is estimated that about two-thirds of the goatskins that enter international trade are assembled at Philadelphia, and that one-half of the sole leather and nine-tenths of the glazed kid and colt skin manufactured in the United States are made in that city. New York is the centre of the belting industry, and here are turned out each year thousands of belts of great strength and durability for use in various manufacturing industries. Boston is also a great leather-market. The leather made in the centres mentioned is purchased by boot and shoe and other manufacturers, who seldom purchase the raw hides and skins.

The leather industry is controlled largely by a few great corporations, who draw upon every part of the world for the hides and skins required. Cattle hides are supplied by the United States, Canada, Mexico, and South America. These are mostly assembled by the large meat-packing concerns, which own tanneries and dispose of the hides after they are tanned. Calfskins are largely obtained from the dairy farms of the United States, where the calves are sold for veal, and their skins later converted into high-grade leather. In passing, it may be noted that this wholesale slaughter of calves is responsible for our dwindling supply of cattle and dairy products.

The hides that we obtain almost entirely by importa-

tion are those of the goat and the chamois. These come from the hill countries of India, from Switzerland, Russia, Spain, northern Africa, China, South America, Turkey, Arabia, and the Balkan States. Goats are used for food in most of these countries and their skins carefully preserved, to be sold at stated periods to buyers who make regular visits to the local markets, where the skins are brought by the breeders. These buyers represent dealers of the primary markets, who export the hides in ship-load lots. London merchants secure great quantities of these, and re-export them to the United States. Marseilles is another important market for hides and skins, especially for those of northern Africa. The product of China and South America is largely imported direct by American leather companies, who buy either through brokers or their own representatives maintained there for that purpose. Many of these are natives, whose familiarity with the customs and traditions of the people enable them to procure the hides at the best prices.

Rubber and Gutta-Percha.—India-rubber, or caoutchouc, is obtained from the juice, called latex, of certain tropical trees, which are tapped in much the same way as the sugar-maple is for its sap. These trees are grown in the wild state in tropical jungles, or on cultivated plantations in tropical countries. Until recently the supply of wild rubber greatly exceeded that produced on plantations, but the increased use of rubber for automobile tires and other purposes has so broadened the demand that it has been found profitable to plant and cultivate great areas. About two-thirds of the rubber of commerce is now produced on plantations.

Most of the wild rubber is produced in the tropical forests of the Amazon and its tributaries in Brazil, and two-thirds of this is regularly exported to the United States. The city of Manaus on the Negro River, one thousand miles from the Atlantic, is the centre of the industry. The rub-

ber-trees are on public land and concessions are granted by the government to individuals or companies. The expenses incident to the gathering of the crop are heavy; the concessionaire advances the rubber-gatherers he employs all the necessary supplies for the season, including groceries, clothing, utensils, firearms, and ammunition. He receives those supplies from a commission house at Manaos, to which he later delivers the crop. If the season is a good one, the concessionaire may make a fortune, but if conditions are unfavorable, the returns for the season may be insufficient to pay for the supplies.

The rubber is delivered to the commission house in the form of biscuits weighing several pounds each. The commission house consigns the product in cargo lots to New York brokers or sells it outright to American importers. About two-thirds of Brazil's rubber yield is thus exported to the United States, most of the balance going to British importers. American rubber manufacturers thus obtain their supply either through brokers or importing houses, or through direct relations with the Brazilian commission houses.

It is estimated that fully nine-tenths of the supply of plantation rubber is produced on plantations owned by British capitalists. These are located mostly in British India and in the Dutch East Indies. These plantations are controlled by a single great investment corporation, which brings each season's output to England, where it is either manufactured or sold to buyers for manufacturers of other countries. The United States manufactures about two-thirds of the rubber used in the world. Our supremacy in this industry is largely due to the discovery and use of highly efficient methods in manufacture.

Gutta-percha is similar to rubber in being obtained from the juice or milk of trees. It is produced mostly in the Philippines, Borneo, and Sumatra. It is used as an insulating material in the construction of ocean cables, and

also in the manufacture of golf-balls and similar articles. It is imported either directly by the manufacturers or by brokers acting for commission houses located at the centres of production.

Sugar.—The consumption of cane and beet sugar in the United States totals nearly 9,000,000,000 pounds annually, which means that our per capita consumption falls only a little short of 90 pounds. About 22 per cent of this is produced in the United States; nearly 25 per cent is obtained from Hawaii, Porto Rico, and the Philippines; the balance, or about 53 per cent, is imported chiefly from Cuba. About one-third of the domestic production is cane-sugar. Our ability to produce a much larger proportion of the sugar consumed is unquestioned. The sugar trade in the United States is absolutely controlled by a few corporations or trusts, which own or control most of the plantations in our island possessions and Cuba. Consequently, the importation of sugar is made directly by the producers, who own refineries in the United States. Most of the sugar is thus imported in its raw state.

Tea.—Formerly most of the tea used in the United States came from China and Japan, but Ceylon and India teas have largely replaced these in recent years. The teas of India and Ceylon are grown on great plantations, owned mostly by British firms of immense capital and influence, which have the product packed and shipped to London each season. In London it is placed in bonded warehouses, as there is a high duty on its importation, and is kept in these warehouses for a period of some months. It is sold at great public auctions held at Mincing Lane, London, which are attended by wholesale tea merchants from many countries. An elaborate system of sampling and tasting has been developed, and the grades are most exactly defined and separated. Some of the largest owners of tea-plantations in Ceylon and India sell most of their product, put up in cans holding as little as a quarter of a pound or

in chests containing large quantities, direct to wholesale merchants or jobbers without the formality of an auction. Much Chinese tea is imported into England, but the greater part of this is re-exported by tea merchants, some of it being purchased by American tea-importers. Ceylon, India, and Japan tea is handled largely by the use of machinery, while that of China is still picked, cured, and packed by hand.

Chinese and Japanese teas are grown on small farms or even in the back yards of the peasants, who cultivate it with the greatest care, pick it, and cure it sufficiently to retain the flavor. It is sold to tea merchants or commission men, through buyers who make regular trips through the tea-producing territory. It is then taken to great "hongs," or warehouses, where it is dried, cured, and prepared for market. From the "hongs" it is sent to the ports and shipped, or sold to export merchants, who repack it and consign it to importers located at the ports of the country to which it is shipped. American tea-importing merchants either buy their teas outright from the Chinese and Japanese exporters, or handle it on a commission basis; the former method is the one commonly followed. The importer distributes it to wholesalers or jobbers, who, in turn, sell it to retail dealers.

It has been demonstrated that tea can be grown successfully in many of our Southern States, but the labor required in its production is so great that it does not pay in this country. We annually import about \$17,000 000 worth of this beverage.

Raw Silk.—Another semitropical product that there is every reason to believe might be produced successfully in the United States is raw silk. The Department of Agriculture has for some time been carrying on experiments with silkworms, and the results have been satisfactory. Much labor and patient handling is required for success in this industry, which accounts for the slow progress made by

those unaccustomed to the industry. Our raw-silk imports in 1915 exceeded \$83,000,000 in value, most of it coming from Japan, China, Italy, France, Spain, and India. We regularly import twice as much silk from Japan as from the whole of Europe. About three-fourths of the raw silk imported is brought from Japan and China by American importers located at San Francisco. It is shipped from that port in special trains to New York, which is the greatest raw-silk market, next to Shanghai, in the world. The silk is handled in New York either by commission merchants, brokers, or by importers maintaining branches in San Francisco. There it is graded, sampled, and sold to buyers for silk manufacturers. The United States imports about one-half of the raw silk that enters commerce; it is, therefore, the greatest silk-manufacturing country in the world. Paterson, N. J., is the centre of silk manufactures in this country.

Coffee.—The United States is the leading coffee-consuming country in the world, nearly 1,000,000,000 pounds being used here annually. The per capita consumption of this beverage is, therefore, about 10 pounds a year. With the exception of about 9,000,000 pounds obtained from Hawaii and Porto Rico, the immense quantity consumed is obtained from foreign countries, chiefly Brazil, Colombia, Venezuela, Central America, and Mexico. By far the largest amount comes from Brazil, which supplies us with about 775,000,000 pounds annually. This coffee is grown on great plantations in the states of Sao Paulo, Rio de Janeiro, Minas Geraes, and Espirito Santo. A coffee-plantation with its carefully pruned trees, with their dark-green shiny leaves, white blossoms, and red berries, is a beautiful sight. The harvesting of the berry begins in April or May and lasts until August. Each tree yields from two to three pounds of berries, which are gathered by hand. As soon as it is harvested the coffee is taken by the planter to a central station, where it is cleaned, dried,

and put through a machine that hulls and polishes it. It is then packed in jute bags and shipped to a broker either at Santos or Rio de Janeiro, who handles it at a 3 per cent commission.

The broker grades and repacks the coffee and then disposes of it in one of three ways:

1. He sells it direct to the buyers of American or other importing houses.
2. He sells it to American or other importers on cable quotation.
3. He sells it to local exporting houses.

Some Brazilian coffee is consigned in cargo lots to New York or New Orleans coffee-brokers, who, upon cabled instructions from the consignee, display samples and sell on a fixed commission of $\frac{1}{2}$ or $\frac{3}{8}$ per cent. The coffee is shipped mostly by tramp steamers. New York and New Orleans are the leading coffee-markets of the United States.

The coffee-broker in New York or New Orleans sells through brokers to wholesalers or jobbers, who are usually the roasters. The movement of coffee after it reaches the United States is thus described:

Green coffee is another product that is sold principally through brokers—from the importer through the broker to the roaster (usually the wholesale grocer). Here, again, the principal economy is due to the fact that the broker sells for a number of different houses. One or two of the largest coffee-importing houses have their own sales organizations with salaried representatives in all large cities, who sell direct to roasters. One large New York house has its own representatives in five of the largest trade centres in the country and uses brokers in other cities. . . .

Usually a coffee-broker has exclusive sale for his principal in the market in which he is located. . . . The customary brokerage fee is 15 cents a bag of 132 pounds,

which amounts to about one-eighth of a cent a pound, or about 1 per cent of its value. Sometimes the coffee-broker also represents a foreign exporting house direct, rather than a domestic importer.*

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* *Quarterly Journal of Economics*, vol. 32, p. 598, August, 1917.

CHAPTER XII

THE TRANSPORTATION OF OUR FOREIGN COMMERCE

The commodities entering our foreign trade depend upon the railroads, inland waterways, and ocean carriers for their transportation. The products of interior points must first be conveyed to the ports, either by the railroads or by the inland waterways, and thence taken by ocean carriers to the foreign ports of destination. The network of railways that penetrate to every part of the country collect from the points of production the raw materials and foodstuffs for export, as well as those to be retained for domestic consumption, and bring them to some central distributing point, such as Chicago, St. Louis, Kansas City, Omaha, or Duluth. Here, also, are assembled the manufactured products of the surrounding territory. The surplus commodities of all kinds that are destined for export are then forwarded to the seaboard, either by rail or by water, or by a combination of the two. At the ports these commodities are assembled at the wharfs, where they are loaded on the outbound vessels to be conveyed to the foreign ports of destination.

Our imports from overseas enter the country through the ports, but only a fraction remain there. The bulk are taken up by the railroads and carried to the inland distributing points, where they are despatched as needed to scattered towns and hamlets of widely separated regions. A small portion of our imports is brought to interior points over our inland waterways. Inland transportation facilities, then, are quite as important a factor in our foreign trade as are ocean carriers. Only those

exports produced at the seaboard and those imports consumed there are in any way independent of the wonderful network of railways and waterways with which our country is provided.

A consideration of the facilities now available for the transportation of our foreign as well as of our domestic commerce is essential to the understanding of the organization of our foreign trade. These will now be discussed under the following heads:

1. Railroads.
2. Inland waterways.
3. Ports and terminal facilities.
4. The American merchant marine.
5. Ocean trade routes.

Railroads of the United States.—The railroad mileage of the United States, exclusive of that owned by switching and terminal companies, was in 1914 252,230 miles. This is about 40,000 miles more than the total mileage of all the railroads of Europe, and is approximately three-eighths of the railroad mileage of the world. The railroads were built by a large number of independent companies, many of which received liberal aid and encouragement from the federal government, but by a gradual process of consolidation they have been brought under the control of a small number of capitalistic groups, so that in 1917 four-fifths of the railroad mileage of the country were controlled by less than a dozen financial interests. The right of the federal government to control the railroads through preventing unfair discrimination in rates, pooling, the granting of rebates, and other unfair practices, notoriously common for many years, has finally been established. The general regulation of railroads engaged in interstate commerce rests with the Interstate Commerce Commission, created by act of Congress in 1887. The powers of this commission have been enlarged from time to time; its decisions have proven, in the main, highly

satisfactory. Before the railroads were taken over by the federal government in January, 1918, those in control were advocating the federal incorporation of interstate carriers, thus removing them from the jurisdiction of the various States.

A convenient grouping of the railroads of the United States is in three divisions, as follows:

1. The territory north of the Potomac and Ohio Rivers and east of the Mississippi.
2. The territory south of the Potomac and Ohio Rivers and east of the Mississippi.
3. The territory west of the Mississippi.

In the first division are the New England roads and the trunk lines. The New England roads mostly terminate at Boston. The trunk lines connect the Great Lakes and the Ohio River regions with the Atlantic coast. Buffalo, Cleveland, Detroit, Toledo, Chicago, St. Louis, Indianapolis, Cincinnati, and Pittsburg are leading commercial centres served by these roads. This group of roads, with a network of ramifications extending to every part of the territory covered, has the most highly developed manufacturing region of the United States in its territory. Hence it carries the largest traffic of any group.

In the second division are the Southern roads, which have an immense traffic in cotton, lumber, and coal, which are carried from interior points to the coast cities of Norfolk, Wilmington, Charleston, Savannah, Jacksonville, Tampa, Pensacola, and New Orleans.

In the third division, that west of the Mississippi, are the southwestern roads, the Granger roads, and the great transcontinental lines. The Southwestern roads furnish an outlet for the grain, lumber, live stock, and cotton of the region southwest of St. Louis. The principal cities served by these roads are St. Louis, Memphis, and the Gulf ports of Galveston and New Orleans.

The Granger roads, which were originally built or pro-

jected by farmers of the territory they now serve, carry grain, live stock, and other agricultural products to the great distributing centres of Chicago, St. Louis, Kansas City, and Duluth.

The transcontinental lines are those roads that connect the Pacific coast with Chicago, St. Louis, and other Mississippi Valley points. There are three such lines in the North and six in the South. The Northern lines are the Great Northern, the Northern Pacific, and the Chicago, Milwaukee, and St. Paul Railway, all connecting Puget Sound points with the ports of Lake Superior and with Chicago and St. Louis. The Southern transcontinental lines include the Southern Pacific, the Union Pacific, the Atchison, Topeka, and Santa Fé, and the Western Pacific. Two other lines extend from the coast to Salt Lake City, where connections are made for Chicago and other Mississippi Valley points. These lines are the Oregon Short Line from Portland, and the Los Angeles and Salt Lake Railway from Los Angeles.

Inland Waterways.—The navigable rivers and lakes of the United States, with the ship canals, make a wonderful system of inland waterways, over which a much larger traffic than is now carried could be handled to advantage. With the exception of the Great Lakes, our inland waterways have been allowed to fall into comparative disuse. The Mississippi River alone, with its navigable branches, might be used to furnish cheap transportation for thousands of tons of freight that are now shipped by railroad to the Atlantic coast ports. A more extensive use of these natural arteries of trade, with the resultant lowering of freight costs, would enable us to compete on more favorable terms in the markets of the world. When the railroads adopt the practice of routing freight through, even when it is carried for a part of the distance over inland waterways other than the Great Lakes, when the federal government adopts a more uniform and more scientific

method of making appropriations for the improvement of such waterways, and when the financial interests of the nation lend their support to the greater utilization of our rivers and canals, the advantage to the farmers, manufacturers, and merchants of the interior will be reflected in a greater production of commodities at a decreased cost to the consumer. The New York Barge Canal—an enlargement of the Erie Canal—has just been built in order to win back to New York her primacy in the export grain trade, which had been lost owing to the competition of the water routes by way of the St. Lawrence on the north, and of the short rail routes to the Gulf ports in the south. Other projected canals include one to connect the Ohio River with Lake Erie from Pittsburg, another to connect Lake Erie with Lake Michigan in a direct line, and a series of canals to connect Lake Michigan with the Mississippi River.

The Great Lakes afford in conjunction with the Erie Canal a through waterway from the great lumber, grain, iron, coal, and copper producing regions along or near their borders to the Atlantic seaboard. Traffic in these commodities is enormous, that passing through the St. Marys or Soo Canal far exceeding in tonnage the freight carried through any other canal in the world. The great assembling and shipping centres of the Great Lakes region are Duluth and Superior, Milwaukee and Chicago. To Duluth, the head of navigation on the Great Lakes, and Superior, just opposite Duluth, immense quantities of grain, flour, lumber, iron ore, and copper are assembled by the numerous railways that penetrate to the remote corners of Minnesota, Wisconsin, and the Dakotas, and thence shipped to the manufacturing cities along Lake Erie or through to Buffalo, where part continues by way of the Erie Canal to the seaboard, and a larger part is carried by rail either to New York, Boston, Philadelphia, or elsewhere.

Chicago, the greatest railroad centre in the world, collects the products of the great northern section of the United States, and ships such bulky commodities as grain, lumber, iron ore, and coal over the Great Lakes. Those commodities intended for export are transshipped at Buffalo, and carried by rail or water to New York. Not all of the commodities enumerated are shipped by water; the trunk lines carry great quantities of coal, iron, lumber, and grain, making rates that, when time is a factor, secure a large volume of such traffic. During the winter months, when the Lakes are frozen, all the traffic is necessarily diverted to the railways.

Ports and Terminal Facilities.—The seaport is the gateway through which nine-tenths of our foreign trade pass. From every producing section of the country the commodities that are destined for other countries are sent by rail or water to the ports, to be taken as line or charter traffic to their destination overseas. The facilities provided at the ports for the handling of freight received there for transshipment vary greatly. As a rule, the largest ports have a succession of piers or wharfs extending at right angles to the shore-line along which the vessels may lie while loading or discharging cargo. Ports that have closed harbors and sufficient space for a great number of piers and wharfs have a great advantage over those that are mere open roadsteads, without protection from winds and storms, such as are common along the coasts of South America. In such an open roadstead freight must be discharged into lighters, or small open boats. When the water is rough, it is sometimes impossible to discharge a cargo in an open roadstead, and a ship is obliged either to wait for days or to carry the cargo destined for that port to another or to keep it on board until the next trip.

The Atlantic and Gulf coasts of the United States have numerous closed harbors, which have been so improved as to afford facilities for the loading and unloading of

hundreds of ships at a time. A large part of the work of loading and unloading is done by the aid of machinery run by electric or steam power. Hydraulic cranes, hoisting apparatus by which twenty tons or more of merchandise can be lifted at one time, huge coal-buckets and steam-shovels, elevators, and other devices are available in the large ports. Ships are thus able to load or unload in a few hours, instead of requiring several days, as was formerly the case. The floating elevators, which are towed alongside the vessel in which wheat is carried, furnish an excellent example of the aid such devices are to commerce. By their use a cargo of 300,000 bushels of wheat can be loaded in two hours.

The federal government, through the power conferred by the Constitution to regulate commerce, has control over the channels of rivers and of harbors in general, though the State usually has control of docks, wharfs, and the mechanical appliances provided for the loading and unloading of vessels. This authority is sometimes conferred upon the municipality, as in the case of New York City, where most of the wharfs and piers are owned by the city and administered by a city official, known as the harbor master. In Philadelphia, most of the harbor front is held in private ownership, but it is subject to the regulations of the State and city, and is administered by a public official. In California the harbors are under the control of the State, that of San Francisco being owned and managed by the State. Since the expenditures for wharfs, piers, facilities for handling merchandise, warehouses, and elevators reach enormous proportions, these are usually divided among the national and State governments, with supplementary improvements made by private capital.

A greater co-ordination between railroads and port administration is needed, so that each might plan its terminals with due reference to the other. As it is now, railroad

freight destined for ocean shipment is often unloaded miles away from the wharf, to which it must be carted, causing unnecessary expense and trouble. Piers having railroad tracks in the middle, with ships moored at either side, enable a vessel to be loaded cheaply and expeditiously.

About half of our foreign trade passes through the port of New York; a larger proportion of imports than of exports are handled at this port. Galveston is second only to New York in the value of its export trade, which is largely made up of raw cotton. Boston ranks next to New York in the value of both imports and exports, with New Orleans as a closer third. The value of imports and exports passing through the port of Boston about balance each other, while New Orleans exports nearly four times as much as it imports. From the Southern ports great quantities of raw materials are exported, which accounts for the excess of exports over imports. The Pacific ports are steadily increasing the volume of commerce passing through them, though they have been greatly handicapped since the opening of the Panama Canal by the dearth of shipping. San Francisco is the most important port of the West coast. Next come the ports of Puget Sound. Los Angeles has converted its port at San Pedro from an open roadstead to a splendid harbor, and the port of San Diego has likewise been greatly improved in recent years. As soon as an adequate supply of shipping is available for the Panama Canal route, the trade of the Pacific coast is sure to increase at a wonderful rate.

American Merchant Marine.—With ship-building, fishing, whaling, and commerce all profitable pursuits in New England and the Middle Colonies, the American merchant marine achieved a position of prominence in the early colonial period. As early as July 4, 1631, a thirty-ton bark, the *Blessing of the Bay*, was launched for her owner, Governor John Winthrop, of Massachusetts Bay. It is interesting to note that it was for the purpose of promoting

foreign trade that this ship was built; in the words of Governor Winthrop: "The general fear of want of foreign commodities set us on work to provide shipping of our own." In 1640 Salem celebrated the launching of a 300-ton ship, and Boston followed two years later with one of the same tonnage. By 1676 over 430 vessels were owned in the Massachusetts Bay Colony alone. These ships were either engaged in fishing, whaling, or in trade with the West Indies or with European or other ports.

After 1714 the schooner, with its two-masted fore-and-aft rig, was the best-known type of Yankee keel. For over a century and a quarter it maintained the first place in overseas commerce, to be supplanted finally by the far-famed clipper. Before the Revolution the Americans had won first place both in ship-building and in the carrying trade. After independence was gained, the merchant marine forged ahead, despite the attacks by the Barbary pirates, and by both the French and English during the French Revolution and later. Trade with the most remote countries was developed by the hardy adventurers who represented the United States on the sea, China, the East Indies, India, the African coasts, the Pacific islands—all offered trade advantages which were promptly seized.

The supremacy of the United States was unquestioned until steamships came into use. In 1838 two of these, the *Sirius* and the *Great Western*, made the trip from Liverpool to New York. The next year the Cunard Line was founded by an English company, and steamship traffic across the Atlantic was placed on a permanent and profitable basis. The people of the United States were not content to see their maritime leadership disappear without making an effort to meet the new conditions, so the Collins Line of steamships was established by an American company, with the aid of Congress, in 1850. The time required by the steamers of the Collins Line to make the trip from New York to Liverpool was several hours less than that made by

the Cunarders. The rivalry was keen, but ten days was the shortest time made.

The famed Yankee sailing-vessels which had long borne the Stars and Stripes to every port of the world did not propose to bow before the steamship. Instead, renewed efforts were made to improve both their speed and carrying capacity. The famous Yankee clippers, "long, low, rakish" craft, were the result. The speed made by these remarkable sailing-vessels was for a brief decade the marvel of the world. At a time when the speed of the fastest ocean steamship did not exceed fourteen miles an hour, the *Sovereign of the Seas*, the *Comet*, the *Flying Cloud*, the *Sea Witch*, the *New World*, and their fleet sisterhood were making as high as fifteen, sixteen, and even seventeen miles an hour throughout a twenty-four-hour period. It was an ordinary occurrence for one of these slim, graceful clipper ships to overtake and pass a transatlantic steamer in mid-ocean, and to make the voyage in less time than was taken by its unwieldy rival. Twelve days for crossing the Atlantic was a record made by more than one famous clipper, proudly flying the American flag.

The Civil War put an end to our maritime supremacy. This, however, might have been regained had not the pressing need for more railroads to keep pace with the development of the West offered a more enticing field for the investment of capital, which turned to the huge profits to be made in railroad building and railroad financing, leaving the sea-traffic to England and other nations. The supplanting of the wooden ship by that made of iron and steel, which became general in England in the early fifties, worked a revolution in the ship-building industry, and enabled England to build ships more cheaply than the United States. This has been a very important factor in the decline of our merchant marine.

The tonnage of vessels engaged in foreign trade steadily declined from 1860 to 1913. From the adoption of the

Constitution to 1840 an average of 85.5 per cent of our foreign trade was carried in American bottoms. This had fallen to 75 per cent in 1862, to 31.9 per cent in 1871, to 9.3 per cent in 1900, and to 10.1 per cent in 1913. It had long been felt that measures should be taken to rehabilitate our merchant marine, but it was not until the outbreak of the European War that any adequate effort was made to do this. In August, 1914, a law was passed by Congress admitting foreign ships to American registry. This resulted in an immediate increase in American shipping. Ship-building was likewise stimulated by the dearth of ocean carriers due to the sinking of vessels by the belligerents. A strong sentiment in favor of making a concerted effort to regain our lost shipping supremacy resulted in the passage of a law in September, 1916, providing for the organization of a \$50,000,000 corporation to build or buy merchant ships, under the direction of a national shipping board. The ships bought or built were to be available for lease or charter by private interests or were to be operated by the government if private interests failed to take them.

Every shipyard immediately began to speed up, so that some headway had been made when the United States entered the war the following April. Under the pressing need for ships to carry soldiers, war materials, and supplies overseas and to replace those being sunk by the enemy, the United States Shipping Board made every effort to speed up the production. Standardized ships, by which different parts were made in specialized yards and fabricated or assembled in central yards, were soon being turned out at a surprising rate. In the fiscal year of 1918, 1,430,793 gross tons of shipping were completed, an output which exceeded the total for the five-year period preceding. This, added to the enemy vessels taken over and to those chartered or requisitioned from neutral countries, made an addition of some 5,000,000 tons of shipping during the period we were in the war.

In 1914 the American tonnage engaged in foreign trade totalled 1,066,288 gross tons, while the entire tonnage, including that engaged in the coastwise trade and in the fisheries, was 7,928,688 gross tons. This had increased to about 12,000,000 gross tons by the end of 1918. In 1914 the United States had only 15 vessels of 1,000 tons and over engaged in overseas trade. A tabulation made late in 1919 showed that there were at that date 1,280 American ships engaged in ocean traffic, over 1,000 of these having been built by the United States Shipping Board in a period of two years.

The Demand for Free Ports.—With the revival of the American merchant marine has come a demand for a system of free ports in the United States which would overcome the obstacles to the free course of trade in foreign merchandise which our tariff laws have erected. A free port is a section of water frontage with docks, warehouses, and other terminal facilities, and a restricted area of adjacent land, altogether comprising a zone which is free from the customs regulations of the nation.

Into a free port the ships of the world may enter and discharge their cargoes without the delay incident to the customs inspection and the payment of duties. In such a port warehouses are provided where cargoes may be stored until there is a demand for them elsewhere. The territory included in the free-port zone may be large enough to permit the erection of factories where the raw materials assembled from other countries may be manufactured and shipped overseas, without the payment of duties on the imported materials. While a drawback is obtainable under our present system, against duty paid on imported raw materials when the goods manufactured from them are exported, the forms to be filled out and the strict regulations necessary to prevent fraud are more or less of a restraint on manufacturers. This privilege of manufacturing from imported raw materials, without payment of duty, is, however, a secondary and minor advantage of the free port.

The principal advantage of a free port is the stimulus it gives to the trade in foreign merchandise and to the carrying trade. The free port is a magnet that draws the ships of the world; first, because here they may discharge their cargoes without restriction or delay; and, second, because in such a port they are sure of finding return cargoes for whatever port they may be bound.

In the free port cargoes may be broken up and reassembled; raw materials may be assorted, graded, cleaned, or even manufactured, and then taken to the best market, free of customs restrictions. Thus, free ports give to a tariff country the advantages of free trade in so far as the re-export trade is concerned. Goods moved from the free port inland are, of course, subject to the customs laws of the country.

A free port not only stimulates the re-export trade, but becomes a vehicle through which domestic merchandise is given a wider world market; to free ports as to all merchandise marts traders from the four corners of the globe are drawn, for here they find wares from every land, including displays of domestic merchandise. In a free port sales are made, then, of domestic as well as of foreign merchandise. Buyers come primarily to contract for wares from far countries, but once in the free port, they commonly extend their interest to include the products of the country of which the free port is the market-place.

The advantages of the free port are thus set forth in a recent article in the *Annals* of the American Academy of Political and Social Science:

The great bulk of the carrying trade is done by Great Britain, because she is a free-trade country, and a reference to the rise of British shipping in the years which followed the repeal of the corn laws shows a tremendous and immediate increase in her oversea trade following the establishment of free trade. For fifty years she has been mistress of the seas for the very simple reason that ships could come to her ports from all over the world; they could

there discharge their cargoes and find other cargoes awaiting them without delay. Here there were no obstacles, obstructions, or tariff barriers to interfere with traffic. All history is unanimous in its demonstration that carrying trade will go hundreds of miles to escape tariff barriers. Protective tariffs killed the Spanish trade; they destroyed the rich and prosperous cities of the Netherlands. They killed our own foreign shipping; for commerce hates tariff barriers. In recent years Germany has begun to compete with Great Britain for the carrying trade of the world. She has been able to do this through her free ports, which have existed in Hamburg, Bremen, and Lübeck ever since the Franco-Prussian War. These concessions were insisted on by these old free cities when they entered the Empire. And by imperial law there exists in the harbor of these cities a large free harbor, into which ships can come and go without the payment of customs duties upon their cargoes. By this means a free counter is provided, across which goods can be exchanged and transshipped to other destinations. Or they can be placed in great storage warehouses, where they can remain for an indefinite period until cargoes have accumulated for other ports. If desired, they can be shipped at any time into the Empire on the payment of the customs duties.

Ocean Trade Routes.—Only about one-tenth of our foreign trade is transported by land; most of it is overseas commerce. Hence, a general idea of the great ocean routes by which our trade is carried is important. The trade route that is by far the most important to America is the North Atlantic route. While it would seem that there are many routes across the North Atlantic, the fact is that the lines from and to the various ports all practically converge in mid-ocean, so that there is one route with many branches at either end. On the western end are the ports of the St. Lawrence, of the North Atlantic, of the Gulf of Mexico, and of the Caribbean Sea. The most important of these are, following the order from north to south, Montreal, Quebec, Halifax, Boston, New York, Philadelphia, Baltimore, Havana, Pensacola, Mobile, New Orleans, Galveston, Vera Cruz, and Colon. On the eastern or European end of the North Atlantic route the principal

ports are Liverpool, Glasgow, Belfast, London, Havre, Antwerp, Rotterdam, Amsterdam, Bremen, Hamburg, Copenhagen, and Christiania. Direct lines of this route also penetrate as far as Stockholm, Riga, and Petrograd. Over half of the tonnage of international trade is carried over this route.

A route of the greatest importance is the one that takes up the threads of the North Atlantic route at the European ports and extends them through the Mediterranean Sea, the Suez Canal, and the Red Sea to India and southwestern Asia.

Another route connecting the North Atlantic ports of America and of Europe with the East Indies and the Orient, on the one hand, and with Australia and New Zealand, on the other, is the one that passes south of Africa and thence to the east. This route is longer than the one to the Orient by way of the Suez Canal, but it is used by freight-ships to save canal tolls. Fast mail and passenger steamers do not follow this route, but it is an important one for freight-steamers and sailing-vessels. Most of the vessels following this route call at Cape Town, the great trade centre of South Africa.

A route that will lose its importance with the development of the Panama Canal trade is the one connecting the Atlantic ports of the United States and Europe with the west coast of South America. Some of the lines of this route extend only to the eastern ports of South America; others carry vessels around the continent and up the west coast.

There are two main-travelled routes across the North Pacific. The first connects the ports of the Pacific—Vancouver, Seattle, Tacoma, Portland, San Francisco, Los Angeles, and San Diego—with Yokohama, Shanghai, Hong Kong, and Manila. The most direct line of this route is the one from San Francisco to Yokohama which follows the great circle connecting these two points, passing nearly 1,000 miles north of Honolulu.

The second North Pacific route is the one connecting the Pacific ports of North America with those of New Zealand and Australia. Vessels of this route either call at Honolulu and Samoa or dip down to Tahiti and then proceed to New Zealand or Australia.

The Panama Canal makes the circumnavigation of the globe a simple matter. Ships leaving European ports for the Orient by way of the Suez Canal may continue their journey to the Pacific ports of North America, where they can take on new cargoes, pass through the Canal, and thence across the Atlantic to the home ports. Trade between the Atlantic and the Pacific ports of the Americas is that most directly affected. Hitherto, this had to be carried around Cape Horn or else transshipped at Panama. Likewise, the trade between the Atlantic ports of the Americas and the Orient or Australasia is greatly facilitated by the Canal. The Canal shortens the distance from New York to San Francisco about 7,800 nautical miles, to Honolulu about 6,600 miles, to Valparaiso over 3,700 miles, to Yokohama nearly 3,800 miles, to Shanghai about 1,800 miles. From San Francisco to Liverpool the distance is shortened 5,600 miles, to New Orleans 8,800 miles, and from New Orleans to Yokohama 5,700 miles. Our trade with the Orient, with Australasia, and with South America is bound to be stimulated as the trade routes of the world are gradually altered so as to make use of this great waterway.

Aircraft in International Trade.—The tremendous advance in aviation during the war has made the question of the use of aircraft for commercial purposes no longer a theoretical one. The transportation of mail and lighter freight by airplanes has proved entirely practicable, and the extension of this use to overseas commerce has begun. In this development Great Britain has taken the initiative by organizing corporations for the purpose of building airships for use in foreign trade. Strategic points for aircraft stations have been secured in various countries and aircraft routes selected and mapped out.

The most obvious use of the ships of the air in international trade is as feeders for the ships of the sea. Rush merchandise that is not too heavy can be brought to the port in vessels and loaded at once into great dirigibles and transported inland in a few days where it would take weeks for delivery by the old methods. In South American and other countries where transportation facilities inland are poor, the advantage of aerial navigation is most marked.

Lighter and smaller airplanes are of use as mail and express carriers, especially for the rapid delivery of blueprints, plans, and specifications for engineering works, and for other important documents for which rapid delivery is highly desirable.

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CHAPTER XIII

OCEAN FREIGHT

Importance of Ocean Transportation.—Since overseas commerce, which forms by far the larger part of international trade, is dependent upon ocean transportation, the importance of this subject is apparent. Fully nine-tenths of the foreign commerce of the United States is overseas commerce; all of the foreign trade of the United Kingdom is sea-borne, and the greater part of that of all other nations taking an active part in international trade is transported over the sea. The ocean has been characterized as the great international highway; it is the common property of all the nations, over which the ships of every country go and come on a basis of equality.

Types of Ocean Traffic.—There are two distinct types of ocean traffic, known as line and charter traffic. The first is primarily intended for passenger, mail, and express service, though great quantities of freight are also carried. The ships used on the lines are steamships; they sail on definite routes according to fixed schedules, depending upon regularity and speed for their support. They carry all freight except that shipped in cargo lots on chartered vessels.

Charter traffic is carried by ships operated as single units, owned either by corporations or by individuals. They are called tramps because they are wanderers constantly moving from one place to another, regardless of previous routes or any other consideration but the call of the moment. A tramp steamer may be loading lumber in Seattle in one month, may be leaving Liverpool with a

cargo of coal a few weeks later, may next appear in Buenos Aires, where the coal is discharged and wheat secured to be taken to Hamburg, or Liverpool, or Bombay. Wherever traffic offers the tramp steamer goes, provided the chances of securing a return cargo at a fair rate seem favorable. The tramp service includes all of the sailing-vessels, but it is not confined to these. The steamships engaged in this service are generally those of great carrying capacity and comparatively slow speed. Tramp ships may be chartered for a certain voyage, for a stipulated length of time, or for the carrying of a cargo at an agreed price per ton. They are available only for the large shipper who can make shipments in cargo lots.

The rates for such shipments are lower than those obtainable from steamship-lines, and the service, unless great speed is required, is satisfactory. Such raw materials as grain, cotton, coal, iron ore, lumber, sugar, and petroleum, and such heavy manufactured articles as steel rails, locomotives, and heavy machinery are carried by tramp ships, which may be chartered to carry a cargo to any port from any other port. By far the larger part of ocean freight is handled by charter traffic. Professor J. Russell Smith, in his comprehensive work entitled *Industrial and Commercial Geography*, thus sums up the service afforded by regular steamship-lines and that given by tramp ships:

These two types of ocean service work together like freight-trains and express-trains. The tramps handle the trade of vast quantity; the liners handle the trade of high value and the shipments of small size and great number. The lines, therefore, serve the greater number of shippers. They serve the multitude who cannot fill a ship with one consignment, and among manufacturers there must be thousands of small shipments of finished goods to one that requires a tramp to handle it. The manufacturing state may depend upon the thousand ships that bring food and materials, but there is an equal dependence upon the 300 big liners that carry to market with greater speed the myriad small consignments of manufactured exports. Conversely, the raw-material-producing

country like Argentina depends largely upon tramps to take its exports and upon liners to bring its imports of valuable manufactured goods.

Ocean Freight Rates.—Water transportation is cheaper than that by land. Only the carrier has to be supplied by man; the highway is supplied by nature. Hence, there is no expense for road or road-bed, none for terminal facilities, none for other equipment than the vessel. Harbor improvements are made and terminal facilities provided at each port by the State or municipality. While large steamship companies often build their own wharfs and docks in order to facilitate the loading and unloading of their vessels, this is merely a matter of choice and not of necessity. In all of these respects the ocean carrier has an advantage over the land carrier, the railway. Less capital is thus required for ocean than for land transportation. These conditions all make for free competition among ocean carriers, with the consequent reduction of the charges made for ocean transportation of freight.

This free competition not only tends to keep freight rates low in normal times, but also causes those rates to fluctuate from time to time, so that it is difficult to determine long in advance what the freight on a given shipment will cost. General quotations are seldom given by steamship companies, as the rates are so subject to change, being materially affected by seasonal and other conditions. But exact quotations are given for a specific shipment of a certain kind and quantity of goods at a fixed date between two ports. Since two shipments of the same size, weight, quality, and character, made at different dates between the same two points, may vary considerably in freight charges, great care must be exercised in figuring this item before making c. i. f. price quotations, which include the cost, insurance, and freight.

The bulk of manufactured articles are shipped by line traffic in comparatively small quantities and not in full

cargo lots by charter traffic. Ocean carriers reserve the right to compute freight either by weight or measurement, "ship's option." The weight ton is the long ton of 2,240 pounds, though the metric ton of 2,204.62 is generally used in computing freight shipped from countries using the metric system of weights and measurements. The weight ton is used in calculating freight charges on heavy articles, such as grain, coal, iron ore, steel rails, and heavy machinery. The measurement ton is 40 cubic feet. It is used in computing ocean freight on bulky articles that run light, that is, that weigh less than 56 pounds to the cubic foot or than 2,240 pounds to 40 cubic feet. Most manufactured articles are, therefore, carried by the measurement or cubic ton. Where several tons are charged for on the basis of the measurement ton, the weight of the shipment may be actually less than a ton. An article weighing 2,240 pounds or less but measuring 80 cubic feet is charged as two tons. It is customary to make an extra charge on packages of extra size or weight, or of unwieldy shape. Sometimes the charge is reckoned neither by weight nor by volume, but by the piece or dozen. Thus, quotations are sometimes given by the barrel or case or package. Since there is no uniformity in the methods of determining freight rates, this item must be ascertained by obtaining direct quotations from the company through which a shipment is to be made.

As a general rule all but full cargo shipments must be sent as general cargo by regular line steamers, but there is an exception in the case of berth cargo, which consists of partial cargo taken at times by tramp ships and liners to complete the lading. The conditions under which such partial cargoes are shipped are thus described by Professor Emory R. Johnson in his work entitled *Ocean and Inland Water Transportation*:

It frequently happens that both chartered and line vessels may seek shipments of small quantities to complete the lading of the

ships, or shipments of some special kind of a commodity needed as a complement to the main cargo. A vessel loading with cotton will gladly take a part cargo of steel rails or pig iron to place in the bottom of the vessel; and vice versa, a ship whose chief cargo is heavy freight, will welcome shipments of a light and bulky character that will take up the unoccupied space with profitable cargo. This search for freight to complete or complement the cargo of a chartered or line vessel introduces bargaining methods into the making of rates.

Berth cargo may thus consist of two or three commodities of varying weight or bulk, or, in some cases, of even a large variety of commodities secured in the form of small shipments, in no wise differing from the shipments usually made over line steamers. When the opportunity is offered to make small shipments in this way, shippers are quick enough to take advantage of it, for the rates thus secured are unusually low.

Large shippers who have a somewhat regular volume of exports to ship each month find it to their interest to contract with steamship-lines for the transportation of a stipulated amount of ocean freight each month or each season. Rates secured under such contracts are usually lower than those obtained otherwise, though the fluctuations in rates are so great at times that it is impossible to determine this point in advance. The shipper making such a contract is certain of having the shipping facilities needed, and, knowing in advance what his freight will cost, he is enabled to quote c. i. f. prices without incurring the risk of having the freight cost double or treble between the time he makes the quotation and the date of shipment.

Ocean freight is usually prepaid by the shipper, and this charge is specifically added to the bill rendered the consignee, and is included in the draft drawn against the shipment. In case the goods have been sold under a c. i. f. quotation, the freight does not appear on the bill, as it is included in the price. Primage is sometimes spoken of in connection with ocean freight. It is a charge that still

appears on ocean bills of lading, a survival of the days when the captain and the crew were given a sum of money in appreciation of the care they exercised in handling the shipment.

Parcels Receipts.—Steamship companies require a minimum payment for the issuance of a bill of lading. The disadvantage of making a small shipment, the freight on which is the same as on one several times as large, is evident. When a small shipment is imperative, it can be handled best through a freight forwarding agent or by the use of a parcels receipt. A parcels receipt is a substitute bill of lading, designed to meet the requirements of small shippers. Goods thus shipped are not subject to transshipment, so their use is restricted to direct ports of call of the steamship in which the parcel is shipped. The weight, size, and value of shipments for which parcels receipts are issued vary with the different steamship companies.

Ocean Freight-Agents.—Steamship companies maintain freight-agents at their ports of call and also in large inland cities whose function it is to secure freight and to make arrangements for the shipments booked over their lines. Tramp steamers do not have such agents, but their carrying trade is greatly facilitated by the employment of ship-brokers, who practically direct the operation of charter traffic. These brokers maintain offices at the leading world ports and by an extensive use of the telegraph, the cable, and wireless telegraphy keep in constant touch with the movements of all charter vessels on their list and also with the export and import needs of every nation and of every district. They work on a commission basis, and are indefatigable in their efforts to find ships for commodities to be carried from one port to another, and to find cargoes for tramp vessels in every part of the world.

Railroads having terminals at the seaboard maintain foreign freight-agents who keep freight or station agents

at inland points informed of changes in foreign freight rates. These agents, as well as others representing fast freight lines, are experts in every detail of making foreign shipments. They are able to quote through rates from interior points to overseas destination on specific shipments for definite dates; they reserve cargo space for shipments; supervise the through movement of export freight; direct its transfer at the port of shipment, and attend to the final details of ocean shipments. Freight thus handled is on through bills of lading, in which the rate paid includes all the expenses incident to the shipment.

In the Department of Agriculture bulletin entitled *Methods and Routes for Exporting Farm Products* the following information on export shipments is given:

Merchandise shipped by the all-rail eastern route generally passes over several railroads before reaching its final destination, so that to simplify the methods of handling such through freight, as well as to insure its expedition, companies known as fast freight lines have been organized. These companies may or may not own rolling-stock, but their main object is to facilitate the rapid transit of tonnage over various lines of road in accordance with contracts entered into with the latter, and to generally supervise the through movement of all such freight, although to all intents and purposes the traffic is under the control of the line over whose rails it is travelling.

In the movement of export freight, these fast freight lines are extensively employed, as prompt delivery is always essential. In many instances railroads having terminals at seaboard cities employ a foreign freight-agent, whose duty it is to communicate the ocean rates at least once a week to interior line agents, and should changes in the rates occur during the week the line agents are notified by telegram. Any one wishing to export merchandise from interior points can receive all necessary information as to rates, routes, bills of lading, etc., by applying to the local fast freight-agent, who is generally represented by the freight or station agent of the railroad. . . . The rates submitted by these line agents will always be through rates from the place at which the fast freight line takes care of the freight to its foreign destination. The shipper has therefore nothing to do with the ocean rate, as it is

of course included in the through rate quoted by the agent. In the event of a shipper living at an interior point, from which a local haul has to be made to the place at which the merchandise is consigned to the fast freight line, the local rate covering such haul combined with the through rate given by the agent will be the rate to destination.

C. I. F. Quotations.—Closely allied with the subject of ocean freight is that of quoting prices to foreign customers which cover not only the cost of the goods but also the cost of the freight to the port of destination. Such a quotation is referred to as a c. f. or c. a. f. quotation, meaning cost and freight. A c. i. f. quotation is one in which the cost of the goods, the marine insurance, and the freight are included. Such a quotation shows the exact cost of the goods on board ship at the port of destination. It does not include the cost of landing or lightering or customs charges at the port of destination.

Such charges are usually assumed by the consignee, whose familiarity with the customs of his own port enables him to determine the approximate expense incident to the landing of a foreign shipment and the duty that will be assessed. The cost of consular invoices, foreign exchange, and other incidental expenses are not usually included in c. i. f. quotations, though these must be included if it is definitely agreed that the price quoted covers the cost and all expenses up to the arrival of the goods at the port of destination. Foreign buyers are often deterred from placing an order in the United States because of their lack of familiarity with the cost of inland freight or their misgivings over possible charges that may be made for packing, drayage, or other incidentals. The quotation of a price covering the cost of the goods in the foreign port is often the deciding factor in the placing of an order. Consequently, the making of c. i. f. quotations is becoming more and more common in our export trade.

The making of a c. i. f. quotation requires care and ex-

actness. The quotation must be carefully calculated in order to avoid loss due to freight or insurance being higher than was estimated. It is customary to overestimate the cost of cartage and of both freight and insurance rather than to err in the other direction. It is a simple matter to lower a quotation, but is considered a poor business policy to raise one that has been submitted. The method of figuring a c. i. f. quotation is simple. The total expenses incident to the shipment are determined by adding together the charges for packing, cartage, inland freight, insurance, ocean freight, and any other items to be included, such as the cost of the consular invoice and of the exchange; this total being ascertained, the percentage it bears to the total cost of the goods is figured and this percentage added to the price of each article. For example, if the shipment consists of 14 articles priced at \$100 each, making a total of \$1,400, and the cartage is \$6, the inland freight \$12, the marine insurance \$22, and the ocean freight and other expenses \$44, then a total of \$84 is to be added to the price of the goods. This \$84 is 6 per cent of that price, \$1,400. Consequently, 6 per cent is to be added to the regular price of each article. Hence, the c. i. f. quotation of each article in the shipment will be \$106 instead of \$100, and the 14 articles will be quoted at \$1,484 instead of \$1,400.

There are other quotations that may be considered here. F. O. B. (Free on Board) means that the goods are to be delivered on board the steamer at the port of shipment at the expense of the seller. F. A. S. (Free at Side) means that the shipper is to deliver the goods alongside the steamer or lighter in the port of shipment in proper shipping condition. F. F. A. (Free from Alongside) means that the shipper pays the lighterage charges in the port of destination from the steamer. In each case all the subsequent charges are for the account of the customer.

Packing Overseas Shipments.—The packing of foreign shipments is an important factor in exporting. The im-

portance of exercising the greatest care in every detail of packing and shipping has become generally recognized by exporters of the United States, who have been severely criticised in the past for carelessness or failure to follow instructions to the letter in preparing their goods for shipment. It has been said that American packing methods are inferior to those of England and Germany, and that this has been the cause of losing much profitable trade in many markets. The extreme care now given to this detail in all exporting houses has put an end to most of the complaints and criticism on this score.

In packing a foreign order, there are two distinct considerations: first, the protection required during transit, and, second, the customs regulations of the foreign country to which they are consigned.

The final place of destination of the goods determines the methods of transportation to be employed from the beginning to the end of the journey. In many cases, the ocean trip is only one stage; numerous transshipments, inland railroads, pack-trains, caravans, small river-boats, and even canoes may all be resorted to before the goods reach the customer. Hence, goods that leave the factory in excellent condition, apparently so stoutly packed and carefully protected as to be safeguarded against the roughest handling, not infrequently reach their destination in a badly damaged condition.

The treatment that export shipments are liable to be subjected to is best illustrated by a concrete example. Let us follow the shipment of a number of cases of household utensils to an inland point in Chile. The goods are manufactured in Pennsylvania, shipped to New York by rail, and there dumped in the freight-sheds, to be later carted to the steamship wharf. Here they are loaded on trucks and taken to the side of the ship, where a rope sling is spread out to receive them. Into this they are heaved by sweating longshoremen, who are driven to the last ounce of

energy they possess by the contractor who has the loading of the ship in hand. When this sling or rope net is filled, a great steel hook is coupled to it and it is hauled up over the ship's side. Often, through the miscalculation of the engineer in charge of the donkey-engine that operates this crane, the swaying mass, weighing several tons, crashes against the steel side of the ship, or, if it clears this, it may be jammed against the steel-shod hatchways of the hold, and land with a thud on the lower deck, where the packages are again man-handled by the longshoremen and stored away in the ship's compartments in record time. Many a package freely marked with that most useless of legends, "Handle with care," is hurled into some sharp-edged corner, where it is smashed like an egg-shell and its contents littered over the floor, to the joy of the grinning freight-handlers. Avoiding such a mishap, the packages are stored in the hold and start on their long voyage through heaving seas half round the world. If the voyage is a rough one and the ship encounters heavy seas or one of those lashing hurricanes that toss her about like a cockleshell, causing part of her cargo to shift, the cases that are not a product of the packers' art, inner stayed and outer strapped and cleated, will be a sorry sight, and the house shipping them will spend months in a vain endeavor to convince the consignee that the goods were "properly packed but roughly handled." If the voyage is a smooth one through summer seas, the goods may arrive at the port of Valparaiso in prime condition. Here the ship drops anchor in the open roadstead, where the bobbing lighters come alongside to receive the cargo. The great rope sling is again spread out and the ship's crew, assisted by murderous-looking longshoremen, roll or tumble the goods end upon end or heave them from the top of some tier packed close to the roof to the ship's floor, where they are jammed together into the net, and hauled up rasping and grinding against the hatches and let down with a smash

and a jolt into the lighter, which conveys them to the wharf, where they are again roughly unloaded. Passed through the custom-house through the services of a customs broker, they are ready to start on their inland journey over stiff grades on an open flat car to the end of the railroad; then, strapped on burros or mules, they go jogging on their way to reach the buyer after a ten-day trip, during which they have been left out in the open at night and subjected to all the extremes of heat and cold and the varying degrees of moisture that are to be encountered on such a journey. Unless each case was perfectly packed and was lined with tarpaulin or other moisture-proof material, the customer will open the long-awaited shipment only to find that the goods are broken, marred, dented, or rusted, in which case he firmly vows never to place another order in the United States.

The Effect of Packing on Freight and Tariff Charges.—Not only must overseas shipments be packed so as to withstand the roughest handling, an equally important consideration is the effect of packing on freight and tariff charges. In some countries the duties are ad valorem, in others specific duties are charged, according to the classification of the articles or according to weight. The duty may be on the gross weight, which includes that of the packing; on the legal weight, which is the weight of the goods plus the container but not the outer wrappings; or on the net weight, which is the weight of the goods less that of containers and other packing. When the gross weight is the basis of duties, it is necessary to keep the weight of the packing materials as light as is consistent with strength and durability. The use of battens, of iron and steel hoops and straps, and of strong but light materials, for boxes and crates reduces the weight without decreasing the resistance. The number of crates or packages is of importance, as there are often fixed charges per package, regardless of weight. On the other hand, extremely large or heavy packages are

impracticable in many cases on account of the difficulties of transportation. Since ocean freight is charged by volume, unnecessary bulk means excess freight charges.

Goods subject to tariff duties are usually classified, the duty for one class often being many times as great as for another and quite similar class. When articles of different classes are packed in the same case, the result is that the entire contents of the case are charged the highest rate of duty. It is sometimes necessary to pack two parts of one article separately. Sometimes the removal of nickel or brass or other parts will make an amazing difference in the duty.

The description of the article in the invoice or the specifying of the use to which it is to be put may affect the duty. For instance, tools for use in mining are admitted duty free in some Latin American republics, while tools for other purposes are assessed heavy duties. This phase of the packing question is well brought out by Chester Lloyd Jones in his monograph entitled *The Consular Service of the United States*, as follows:

The importance of filling orders with exactness has been repeatedly pointed out, a slight deviation in width or failure to state the character of goods often subjecting the importer to fines, delays, and higher duties. The frequent difficulties which arise are typified by a dispute which arose in a Brazilian custom-house over a case of "stamped ware" (iron) which was listed as "prints" with customs charged by weight. Such difficulties are not confined to the Latin American countries, however, as it is a caution constantly reiterated that in sending products with metal parts to Germany or Russia, for example, the different metals should be packed separately, as otherwise charge will be the rate for the highest-class article in the package. Under these rulings, heavy engines have been listed as "manufactured nickelware" and lamps as "gilded brass fixtures."

Importers of countries having such tariff regulations often furnish a detailed statement as to the packing and description of the articles. The exact wording to be used

in the consular invoice is not infrequently furnished the exporter in the language to be used, thus safeguarding the importer against fines and excessive duties. While the precautions necessary seem burdensome, they become a matter of routine with investigation, study, and the collection of detailed information.

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CHAPTER XIV

MARINE INSURANCE

Importance.—Marine insurance is an important factor in overseas commerce, for by relieving the shipper of the risk of loss at sea it has greatly encouraged the extension of trade beyond continental boundaries. Its importance in facilitating the financing of overseas shipments is paramount. Without marine insurance to cover the ordinary losses that may occur, bankers would be unwilling to discount bills of exchange drawn against imports or exports. Without being able to realize on goods sold abroad before they reached their destination and were paid for, manufacturers and others engaged in export trade would find it impossible to extend the credit their customers require and demand, and the result would be that the free interchange of the surplus products of one country for those of others would be retarded, and the volume of international trade would be comparatively small.

Lloyd's Association.—Lloyd's Association of London has had the controlling influence in marine insurance for over two centuries. This association received its name from a London coffee-house conducted by Edward Lloyd in the middle of the seventeenth century, which was frequented by those interested in marine insurance. Here all the information available as to the value, condition, and movements of vessels was collected, disseminated, and discussed, and those engaged in underwriting marine insurance had ample opportunity offered them to select the risks they preferred.

The association as now organized is composed of some 400 underwriters, each conducting business on an independent basis, but operating from the same place, the

Royal Exchange, and following the same general plan of business. The following description of the methods followed by Lloyd's is taken from an article in the *Quarterly Review* for April, 1914.

The bulk of the business is brought to Lloyd's by brokers who have their representatives at different countries; the marine-insurance companies, of which there are some ten or a dozen in the immediate neighborhood of the Royal Exchange, get their business, on the other hand, largely from their own agents at ports all over the world. . . . Let us follow the method of procedure. A broker receives an order to insure, say, 10 boats of values between £30,000 and £50,000 apiece. That may mean a total amount of about £400,000 to be insured. He approaches a leading underwriter and gets him to quote a rate. If the terms are satisfactory to the owner, the broker will get this underwriter to lead off with a certain amount. Perhaps this underwriter will write the sum of £300 on each boat; then the broker goes to the other underwriters and offers them the insurance at that rate. These men may either write similar or smaller amounts, according to their judgment, fancy, or finance. If it is a big order, the broker may sometimes be hard pressed to complete it, and he may have to call in the aid of small men who will be prepared, perhaps, to write £100 each. . . . Years ago many men wrote for themselves alone; nowadays it is customary for one man, known as the underwriting agent, to act for a syndicate of from three to a dozen names. These "names" have a position analogous to sleeping partners in private firms. They rarely visit Lloyd's. . . . The underwriting agent may receive a certain fixed salary for acting for them, in addition very often to a percentage of the profits. In almost every case, too, he writes for himself.

The association makes good any deficiencies in the settlements of its underwriting members. The association has agents located in practically every port in the world whose function it is to keep Lloyd's informed with regard to each and every fact in any way affecting shipping. The information thus received is published for the benefit of the members of the association.

Definition of Terms.—The terms used in marine insurance are for the most part the same as those used in

other insurance. The policy is the document expressing the contract entered into between the assured and the assurer. The assured is usually a merchant making a shipment or a shipowner. The assurer is usually referred to as the underwriter. The premium is the money paid to the underwriter for covering the risk. The risk is the peril or danger insured against. It is also used to mean the liability of the underwriter under his contract. An insurance broker is the agent who arranges with the insurer for the policy. These definitions are mostly taken from the work of William Gow on *Marine Insurance*.

The Standard Policy.—The standard marine-insurance policy is expressed in practically the same way to-day as it was over a century ago. Consequently, the language used is antiquated and difficult to understand. Every clause in the standard policy has been interpreted by the courts, but the ordinary reader does not know just what the correct construction is; he must depend upon a marine-insurance expert to explain the policy. It is said that not one marine-insurance broker in ten understands the exact conditions of the policies he writes.

Until recent years only one form of marine-insurance policy was used. This was adapted to the special conditions of the contract by means of indorsements added to the printed form. There are now different forms printed, all following in general the standard form, but each designed to cover a particular kind of risk. The principal classes of policies are as follows: A time policy is one in which the property is insured for a certain period of time. A voyage policy is one in which the property is insured for transit from one point to another. A valued policy is one in which the amount at which the insured property is valued is stated. An open policy is one in which no value is stated; in case of loss or damage the value must be proved. A named policy states the name of the vessel and the limits of the voyage. A floating policy does not

name the vessel carrying the risk, but does signify the limits of the voyage, and usually specifies the class of vessel to be used; when the goods are shipped, the name of the vessel is furnished the underwriter, so that it may be indorsed on the policy.

The first part of the standard marine-insurance policy names the person insured, gives a general description of the objects insured, and states the duration of the risk. The second part of the policy describes the kind of risk covered, or the perils insured against. It is important to note that a marine-insurance policy does not guaranty the safe arrival of the goods insured at the point of destination. The policy covers only the perils specified and the underwriters "are just as plainly exempt from liability to indemnify the assured against loss arising from any peril not specified." This is of the greatest importance, as not infrequently it happens that a shipper supposes that his goods are insured against any possible loss that may occur, regardless of the cause, when the fact is that the insurance covers only certain contingencies.

Losses Insured Against.—The losses covered by a marine-insurance policy are expressed in the following phraseology, which is the language used by Lloyd's:

Touching the adventures and perils which we, the assurers, are contented to bear and do take upon us in this voyage, they are, of the seas, men-of-war, fire, enemies, pirates, rovers, thieves, jettisons, letters of mart and countermart, surprisals, takings at sea, arrests, restraints and detainments of all kings, princes, and people, of what nation, condition, or quality soever, barratry of the master and mariners, and of all other perils, losses, or misfortunes that have or shall come to the hurt, detriment, or damage of the said goods and merchandise and ship, etc., or any part thereof.

This is a formidable list that would seem to cover every possible mishap that either ship or cargo might encounter. But by the process of interpretation and indorsement the risks against which the property have been insured have

been reduced to comparatively few. In the first place the risks are designated as "adventures and perils," which indicates that the insurance is limited to fortuitous accidents or casualties of the sea. Consequently, "loss or damage arising from wear and tear and from inherent defect" is not covered. The limitations of the meaning of the words "perils of the seas" are indicated by the following quotation from a court decision cited in William Gow's work on *Marine Insurance*, Chapter VI: "It is well settled that it is not every loss or damage of which the sea is the immediate cause that is covered by these words. They do not protect, for example, against that natural and inevitable action, which results in what may be described as wear and tear. There must be some casualty, something which could not be foreseen as one of the necessary accidents of the adventure."

If a vessel springs a leak that is not due to accident, but to unseaworthiness at the time of sailing, the insurance company is not liable for loss resulting. Proper protection can be secured by having a clause inserted in the policy admitting the seaworthiness of the vessel. Such a clause makes leaks and any other similar accidents the results of the perils of the sea.

Partial Loss.—Since an insurance policy contracts to indemnify the insured against partial as well as total loss, it is necessary to consider just what damages are construed to result from perils of the sea. Partial loss includes a loss of part of the goods and a loss of value due to damages sustained. Such damage must not result from negligence of the assured or his agents nor from the essential character or natural quality of the object insured nor from ordinary wear and tear. If goods deteriorate or lose their value during transit, the underwriter is not liable for damages unless the damage is due to some outside and accidental influence. For instance, it has been decided that hides rotted as the result of being wet by sea-water in the hold incurred the

loss through a peril of the sea, and that, furthermore, tobacco spoiled by the reek of the putrid hides likewise suffered from a peril of the sea. In the latter instance, it was held that a peril of the sea was the proximate or indirect cause of the loss. On the other hand, it has been held that damage to a cargo of wheat caused by sweating, which was due to the wheat being imperfectly dried or cured before shipment was made, was the result of the inherent nature of the grain. The fact that dampness in the hold was a contributing factor in causing the sweating did not make the damage the result of a peril of the sea.

War Risk.—Though the perils specified in the policy would seem to include every possible war risk, these are all excepted or cancelled by a special indorsement. Separate war-risk insurance is available when needed but is not included in the standard marine-insurance policy.

Fire.—Fire is recognized as a peril insured against, though where fire is the result of spontaneous combustion it is held that the underwriters are responsible for loss or damages incurred by the ship or cargo, but not to that part of the cargo in which such fire originated. If the entire cargo consisted of one kind of goods, as coal, and fire spontaneously broke out in this, the underwriters would not be liable for the loss of the coal.

General Average.—A peril insured against is jettison, which means the throwing of goods overboard in order to lighten a ship in case of storm or accident. The loss thus sustained is known as general average. It is prorated and charged against the cargo, each shipper being assessed with his proportionate share. A loss to be covered by general average must be from a sacrifice made to protect both the ship and the cargo for the benefit of all. Included in general average is any other expense incurred to avert an imminent disaster or danger threatening the ship and cargo. General average has been legally defined as "all loss which arises in consequence of extraordinary

sacrifices made, or expenses incurred, for the preservation of the ship and cargo." Ordinary losses and damages sustained by the ship must be borne by the shipowner. A sacrifice to be classed as general average must be voluntary, extraordinary, for the benefit of both ship and cargo and incurred in an emergency.

Barratry, Seizure, and Other Perils.—Barratry is defined as any species of cheating or fraud, in a shipmaster, by which the owners or insurers are injured; as, by running away with the ship, sinking or deserting her, by wilful deviation, or by embezzling the cargo. It is "an act of wrong done by the master against the ship and goods." In insuring a ship and cargo against this peril, the underwriters are taking upon themselves the risk of dishonesty on the part of the master of a ship and his crew. Under the present highly organized system of keeping in touch with ships, resulting from the use of the cable and of wireless telegraphy, the risk from this peril is minimized.

The risks from capture, seizure, and detention are excepted in policies by writing the letters F. C. & S. in the margin, which signify "free of capture and seizure." These, like war risks, may be especially insured against.

The enumeration of the perils insured against is followed, in the standard policy, by the general statement, beginning, "And of all other perils, losses, or misfortunes." This does not mean that the underwriters assume liability for every kind of peril or loss that may happen. The clause is construed to apply to perils of a very similar nature to those specified. Its effect is to slightly broaden the construction of the policy in law. It does not include any peril fundamentally different from those enumerated.

Additional Clauses.—In order to make the insurance policy fit the particular conditions applying to the property insured, it is customary for the underwriters or their agents to add clauses as required. Clauses so added to a policy are interpreted as follows: The printed conditions

are modified by first printed clauses pasted to the policy, these by the typewritten or written clauses, and then by clauses written on slips and pinned to the policy. These various additions are known as indorsements.

An additional clause found in all standard policies is the one defining the conditions under which partial loss or damage to insured property is to be met. This is known as particular average. Such partial loss must be caused by the perils insured against. Liability for particular average under 5 per cent of the value of the goods insured is excluded in most policies. This form of policy is referred to as an f. p. a. policy, or one free from particular average.

Particular charges are expenses incurred for the protection or preservation of the goods insured, other than general average and salvage charges. These are not included in general average or in particular average. They are covered in the policy by the clause granting permission to "sue, labor, and travel for, in and about the defense, safeguard, and recovery of the goods." Such special charges are recoverable from the underwriters.

While loss from thieves is one of the perils insured against, it is necessary to have an additional clause to cover pilferage by a member of the crew or by a passenger. Thieves as used in the policy refers to pirates and other depredators.

Other hazards that may be covered by additional clauses include those arising from pilferage, breakage, damage resulting from water in the hold, and losses sustained while the goods are on piers or lighters, in warehouses, and on the dock at the port of shipment and at the port of entry. It is customary for shippers to take out insurance on valuable shipments covering all ordinary hazards from the time the consignment arrives at the port of departure until it reaches the consignee.

Taking Out Marine Insurance.—Most of the large fire-insurance companies issue marine insurance. Shippers arrange for it either at the place of manufacture or at the

port of shipment, as preferred. Large exporters usually take out what is known as an open policy, which is issued for a stipulated length of time. Each shipment is covered under such a policy as it is made. Notice is sent to the insurance company as soon as each shipment is made, and full particulars are given to enable the company to fix the premium. Thereupon a certificate of insurance is issued by the insurance company and forwarded to the shipper.

Insurance certificates are made payable to the order of the shipper, who indorses them in blank when they are turned over to a bank as part of a documentary bill of exchange, or when they are forwarded direct to the consignee. It is customary to take out marine insurance for a sum equal to the selling price of the goods, plus 10 per cent, plus the cost of the freight; this is considered to be the value of the goods at the port of destination.

Where shipments are financed through a bank, it is necessary for the insurance to be taken out by the shipper; otherwise the security for the draft would be inadequate. When the foreign customer pays cash for the merchandise, he sometimes prefers to arrange for the insurance through his own agent. Marine insurance is issued for goods sent by mail, by express, or by freight.

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CHAPTER XV

THE EXTENSION OF CREDIT

The Importance of Credit.—One of the most vital factors in foreign trade is the term of credit upon which business is conducted. The statement is persistently made that the average American manufacturer does not meet his European competitor in the matter of the extension of credit to his foreign customers. Investigation tends to show that this charge is not made without cause. While there are manufacturers in the United States who offer just as favorable credit terms to foreign customers as they can obtain from German, English, or other European houses, the average American manufacturer who “dabbles” in foreign trade is still shy of the comparatively easy credit arrangements demanded by so many European and Latin American importers.

It is an established fact that the bulk of export business of the world is transacted on a basis of 90 days sight or longer. European houses that have built up extensive and profitable business with foreign customers have established the custom of selling goods on these terms, or on even more liberal terms. The American manufacturer who is not prepared to finance his shipments on this basis cannot hope to carry on a successful direct export business. He must sell through an export house, which will pay cash at the seaport, and exact the usual middleman’s profit.

One reason for the failure or discouragement that has met the efforts of American manufacturers to establish a profitable export business is that they have attempted to do business on a cash or practically cash basis. They have expected to receive cash with the order or when the

order was shipped. Others have thought to extend credit only until the goods were received by the customer, drawing a draft to be accepted through a bank before the bill of lading was delivered, the draft to be paid at sight or at thirty days sight. This is only practicable when there is little or no competition from houses of other nationality.

Necessity for Credit.—The necessity of transacting foreign business on a credit basis is evident. In the first place, that is the established custom in export trade and the firm that refuses to extend credit cannot get the business. The time required for the delivery of goods and for their passage through the custom-house is an important factor that makes the payment of cash in advance by the importer a hardship in many cases. The custom of some manufacturers of demanding "cash against documents" in New York is one that all exporting firms would like to follow, but it is not one calculated to build up an extensive and permanent foreign trade.

Countries devoted principally to agriculture are especially dependent on credit. When the crops are marketed the farmer pays his bills, with the result that the retailer who has extended credit to the farmer is enabled to meet his obligations at this time. The importer is then in a position to pay for the foreign goods he has purchased throughout the year, and this is the system that he is determined to follow. To be called upon to pay for imports at an earlier date would seriously handicap many large firms of unquestioned standing in Latin America and other countries where the tide of business ebbs and flows with the seasons.

Another factor of importance in credit arrangements is the seasonal fluctuations in exchange. This is especially true in regard to Latin America. Exchange is profitable there at the time the principal exports are being marketed; consequently, this is the time when importers prefer to pay their bills. At this time there is an influx of bills of ex-

change from foreign buyers, and exchange on other countries may be purchased at a low rate.

Wherever possible, business firms the world over desire to turn over the goods they purchase before paying for them; otherwise, too much capital is required to carry on business. Where there is a close business relation between importers and banks, and money can be borrowed at low rates of interest, the demand for a fairly long credit period is not so consistent, but where banks ask a high rate of interest, as in many parts of Latin America, where 12 per cent is not considered exorbitant, the term of credit is of the utmost importance. Not infrequently the obtaining of a liberal credit term quite overbalances considerations of price and quality, and contracts are given on this basis.

Credit Caution.—It must not be assumed that because the American manufacturers have been criticised for a narrow credit policy in foreign trade a looseness or carelessness in credit arrangements is to be recommended. There are certain fundamental business principles that govern here just as in domestic transactions. For the American manufacturer to take undue risks, to extend credit to foreign customers without thorough investigation of their financial responsibility and business standing, to sell goods without having a definite agreement as to the time at which payment is to be made, or to encourage open accounts, except in special cases, are alike unwise, unbusinesslike, and undesirable methods.

Whenever possible, personal investigation by a representative of the manufacturer is made of the financial standing and business reputation of prospective customers, and this information is checked up from time to time. This is one of the duties of travelling salesmen in foreign fields. The information thus gained is used as the basis for further and systematic investigation by the credit department or whoever has this branch of the foreign business in charge. Inquiries are continually being received

by United States consuls as to the responsibility of foreign firms. While consuls are instructed to send to exporters making inquiry the names of commercial houses in good repute who might be interested in their lines, they are forbidden to report upon the financial standing or commercial repute of business men or houses in their district. The various channels through which reliable credit information can be obtained will be discussed elsewhere.

The different methods used in the extension of credit to foreign customers will now be considered.

Methods of Extending Credit.—There are three distinct ways in which credit may be extended to foreign customers. The first and most common method is to make the shipment subject to the acceptance of drafts, which are forwarded along with the bill of lading and other documents to a bank in the foreign country for collection. The second method is to make the sale on open credit. The third and least common method is to sell on long-time credit. Each of these requires careful study.

Credit Against Acceptances.—The basis on which the greater part of international trade is transacted is ninety days credit. Such credit is extended only against the acceptance of a draft, which is attached to the bill of lading and forwarded through a bank. The insurance certificate and a copy of the invoice usually accompany the draft and bill of lading. Sometimes the invoice is omitted. The three documents first mentioned comprise a foreign commercial bill of exchange. The draft represents the amount due the manufacturer for the goods specified in the bill of lading plus whatever charges are rightfully added. The bill of lading is the contract between the shipper and the transportation company for the carrying of the merchandise. The importer or consignee cannot obtain possession of the goods without the bill of lading.

When the documents are received at the foreign bank to which they are sent by the local bank, the consignee is

notified. He may accept the draft and secure the bill of lading at once, or he may prefer to wait until he is certain that the shipment has arrived. Occasionally foreign consignees insist upon taking their time before accepting the draft, leaving the goods on the docks or in the warehouse until they need them. By so doing they secure longer time in which to make payment, as drafts are usually drawn at a specified number of days after sight.

In the case of a ninety-day draft, some firms allow 30 days for the arrival of the goods and 30 days more for the receipt of the payment, making a total of one hundred and fifty days credit. It is customary in Latin America and in some other countries to charge interest at the rate of 6 per cent per annum from the date of the draft until the date of payment. This is an important factor, as it makes the financing of shipments by discounting drafts much easier.

While ninety days is the usual credit term, documentary drafts (those attached to bill of lading and forwarded through a bank) are sometimes drawn for a period of six, nine, or even twelve months from date or from sight, with interest at 6 per cent.

Open Credit.—Foreign business is sometimes done on a basis of open credit. This means that goods are sold with the agreement that payment shall be made at the end of a certain fixed period, as sixty or ninety days. The bill of lading is sent direct to the customer, and the acceptance of a draft is not required. The customer is expected to remit at the expiration of the credit term. It is sometimes agreed that the manufacturer will draw on the customer when payment is due. It is to be noticed that such a draft, drawn on a customer after he has received the goods, is quite different from a documentary draft. It is called a clean draft, because no documents are attached, and its acceptance rests with the drawee, who may refuse to accept without materially impairing his credit in banking circles. Refusal to accept a documentary draft results in the non-

delivery of the documents. Refusal to honor such a draft after it is accepted seriously impairs the credit standing of the drawee.

While many English firms allow open credit accounts, they are usually confined to old customers of known reliability and highest financial standing. Exporters maintaining a branch office or resident agent in a foreign market can extend open credit without incurring undue risks. However, the use of the documentary draft or commercial bill of exchange is favored by the most successful exporters. It is a principle of all business, applying to foreign as well as to domestic transactions, that unnecessary risks, careless methods, and the haphazard extension of credit are bound to result in annoyance, misunderstandings, and loss.

A consignee who receives goods with no obligation to pay may be tempted to delay, evade, trump up claims for shortages, or to ask for unwarranted rebates or discounts, all of which could have been avoided by close adherence to business principles on the part of the exporter.

William E. Peck, a successful New York exporter, has this to say of open credits: "There is a sufficient risk in draft operations without even considering business on open account, and the shipper who is foolish enough to attempt the latter is doomed to failure. Most of the merchants south of the equator, especially in South America, know that American shippers do their export business against drafts instead of an open account and it is unnecessary, therefore, to incur this risk."

Long-Time Credits.—Exporters are sometimes called upon to sell goods on long-time credits, extending from one to three years. Such accounts draw a fixed rate of interest. As a rule payments are required at stated intervals. In some cases security is given in the form of a mortgage. The occasion for such credits is the sale of expensive machinery or equipment to large and responsible firms, or other equally important sales, seldom made except after

personal investigation on the part of the manufacturer or his representative. As a rule the term of credit does not exceed six, nine, or twelve months, at the most, though in case of adverse business conditions that particularly affect the importer, English and German firms have followed the custom of extending the time of payment to meet the necessities of the case. By so doing they have cemented the closest business relations with valuable customers, without incurring serious risks or losses. Interest is charged on the extension of time thus granted.

Foreign Credit Department.—Just as a credit department is found to be essential in every large mercantile business engaged in domestic trade, so does foreign trade necessitate the placing of this important phase of the business in trained and competent hands. To accept the recommendation of salesmen, anxious to increase the volume of their sales, as to the responsibility of foreign customers, when the recommendation of just as capable and trustworthy salesmen in regard to the extension of credit to customers at home would have very little weight, is a policy that is unsound. Manufacturers having salesmen in foreign markets expect them to carefully investigate and report on the financial standing and responsibility of prospective customers, but these reports are not in themselves sufficient. The credit department is constantly on the alert securing all of the credit information possible, using to this end every available means.

There are four distinct phases of the foreign credit man's work. He must know, first, how to assemble credit information in regard to foreign customers; second, how to safeguard foreign accounts, once they are opened; third, how to keep in touch with his customer so as to ascertain the changes that may occur in his business standing; fourth, how to make collections abroad. Even in firms where there is no credit man who has charge of this branch of the business, there is some one who attends to this important

work, and the good judgment and thoroughness here displayed are an important factor in the success of the foreign trade developed by the firm. Each of the four divisions of the work of the credit department will now be considered in some detail.

How to Assemble Credit Information.—Before extending credit to foreign customers a thorough investigation as to their financial responsibility and business standing is necessary, just as in domestic business. Questions to be determined before the extension of credit include the nature and extent of the customer's business, his financial worth, business standing, reputation in the community, and the way in which he has met his obligations in the past.

In domestic trade the first method taken to ascertain the facts required about a customer is to ask him to make out and forward a detailed statement as to his assets, liabilities, net worth, the volume of his business, the amount of money he has in the bank, etc. This method is not familiar to all merchants in foreign countries, and unless they are approached with the utmost tact they take offense and break off all business relations with the firm asking for the statement. Pointed questions as to assets and liabilities, which are answered as a matter of course by American merchants, are particularly objected to by many foreign business men in good standing.

A custom followed by some successful credit men is to preface the request for credit information with a statement of the same character as to the financial standing and responsibility of the American firm sending out the request. The explanation is given that since the opening of a credit account is anticipated, it will be mutually advantageous for each party to the transaction to know something about the reliability and business standing of the other. The customer needs to know that the firm with which he is dealing is a responsible one; otherwise, it would be ill-

advised for him to accept a draft before examining the contents of the shipment. The exporter must be assured that his customer is a business man accustomed to fulfilling his obligations; otherwise, the sale of goods on credit terms entails too great a risk to be undertaken. Some of the most successful credit men in America report that they seldom fail to receive satisfactory and courteous replies to such requests for credit information, which are invariably expressed in such polite phrases that exception can hardly be taken to them. While answers may not be given to a long list of specific questions, other valuable information is given, including the names of American firms and local or American banks with whom they have transacted business.

Another method of obtaining foreign credit information is through application to a bank or banks doing business in the customer's home market. Such inquiries may be sent direct to the foreign bank or may be made through an American bank. American branch banks located in foreign markets give much attention to the gathering of credit information for the benefit of clients of the home bank. They will usually furnish any information which they have in regard to a foreign firm's credit standing when the reason for desiring the information is specifically stated. The branch banks of the National City Bank of New York, of the Guaranty Trust Company, the Mercantile Bank of the Americas, the Irving Trust Company, and of other banking corporations, are spending much time and effort in gathering reliable credit information about the business firms of the various centres in which the banks are located. This information is furnished free of charge to any established American firm which makes a specific inquiry.

The exchanging of credit information among American manufacturers is becoming common. Hence, the credit man has no hesitancy in applying to any American firm

given as a reference as to the business standing of a foreign customer. Often valuable information as to the business methods of a prospective customer as well as to his financial standing is thus obtained. The free interchange of such information is bound to be of advantage to American manufacturers.

Foreign banks also answer inquiries as to the business standing of local firms, though the information thus obtained is often meagre and cannot always be implicitly depended upon. No bank is anxious to impeach the standing of its clients. Neither is a bank expected to answer questions propounded by strangers with as much fulness as it gives to the inquiries of its own customers. There has been a decided tendency on the part of some foreign banks to withhold credit information from manufacturers with whom they have no business relations or sympathies, especially if they belong to a nation that is trying to break in on the trade of countries with which the banks are affiliated.

The mercantile agencies afford a reliable means of obtaining credit information. There are two such agencies in the United States having numerous branches in the foreign field. These are the agencies conducted by R. G. Dun and Company and Bradstreet. They maintain branches in all of the large trade centres and have reporters and correspondents in practically every market. They can usually furnish, on short notice, valuable data as to the credit rating of any foreign firm. If they have not this data on file, they will procure it upon request. Their charges for furnishing credit information are reasonable.

The National Association of Manufacturers, which maintains headquarters at New York City, has been for years assembling credit information about foreign business houses. For this purpose the association has over 1,800 correspondents located in various markets in all quarters of the globe. These correspondents furnish valuable information as to

the business rating and financial standing of merchants and firms in the foreign field. Membership in the association carries with it the right to a limited number of credit reports, and for a small additional fee other reports are furnished.

The Philadelphia Commercial Museum maintains a credit information bureau for the benefit of its members. It assembles this information in practically the same way as does the National Association of Manufacturers. The services which the museum is prepared to render its members are so varied and so valuable that membership in it is sought by practically all large manufacturers. Among these services may be mentioned the translation, for a nominal fee, of foreign correspondence, the preparation of reports on business conditions and business opportunities in any foreign market which the member may be interested in, the supplying of specific information as to customs regulations, or other laws affecting commerce, and the collection of delinquent accounts in foreign countries. The fees charged in each instance are reasonable.

The American Manufacturers Export Association furnishes credit information to its members. It also assists members in many other ways in developing and carrying on a profitable export trade. Headquarters are located in the Manhattan Life Building, New York City.

The various chambers of commerce, manufacturers associations, and credit men's organizations are prepared to give some assistance in the matter of collecting foreign credit information, and the capable and alert credit man is careful to keep in touch with all such organizations.

From the brief review just given of the various channels through which credit information in regard to foreign customers may be secured, it is evident that the obtaining of such information is not so difficult as might appear at first thought. Hence, the manufacturer who hesitates in regard to extending credit to foreign customers on the grounds

that it is difficult or impossible to obtain reliable credit data needs the assistance of an expert along that line.

How to Safeguard Foreign Accounts.—The first way in which the credit man safeguards his foreign accounts is by making every effort to secure reliable and complete credit information in regard to every foreign customer. This enables him to determine to just what extent credit may be extended to each customer. Unless the reports relative to a customer's credit standing are practically uniform in stating the risk to be a good one, the credit man will insist upon business being transacted on a cash basis.

The credit man can further safeguard his foreign accounts by using his influence in making the policy of the firm one that invariably requires that every foreign order be filled, packed, and shipped exactly as directed. By so doing the number of legitimate claims for substitution, shortages, or damages sustained in transit resulting from improper packing are reduced to the minimum or entirely eliminated.

Co-operation between the credit department and the other departments also has the effect of insuring that exact attention to every detail, in making out shipping and other documents, which is so important a factor in every foreign shipment. The proper making out of every invoice, bill, statement, bill of lading, draft, etc., is an important element in safeguarding a foreign account, for delays, misunderstandings, and dissatisfaction are thus avoided and no excuse given the consignee to delay payment while complaints are adjusted.

There are certain legal requirements in regard to drafts that the vigilant credit man must know. In most Latin American countries the words "Value received" or "Value on account" are required; these words are added when the draft is indorsed, as well as the place and date of indorsement. In nearly all countries a draft must be noted and protested in case it is dishonored by the non-acceptance or

non-payment of the drawee. Otherwise it loses its status as a promise to pay and becomes, provided it has been accepted, a mere evidence of indebtedness.

The first step in protesting is called noting. It is done by a notary, who, when a draft is dishonored, notes the fact on the back as the grounds of a protest. A protest is a formal declaration made by a notary public, at the request of the holder of a draft, for non-acceptance or non-payment of the same, protesting against the drawer and others concerned for the exchange, charges, damages, and interest. In most European countries, after protest for non-acceptance, the holder is required to present the draft again at maturity, and if it is not paid he must protest for such non-payment. In most countries the protest for non-payment of a draft must be made on the day it is due, though in France one day of grace is granted and in Germany two days are allowed. Not all banks taking drafts for collection will protest in case of non-acceptance or non-payment unless they are so instructed when the draft is sent to them. Hence, such instructions should accompany every draft forwarded through a bank.

A safeguard used in drawing a draft is the insertion in it of the name of a person, firm, or bank to whom the holder may refer in case the draft is dishonored. The name so inserted is preceded by the words "In case of need," or "In case of need notify." The person so specified is authorized to either take up the draft (by paying it) or to use his good offices to induce the drawee to honor it. He is often called "the referee in case of need."

How to Keep in Touch with Foreign Risks.—The necessity of keeping in close touch with every foreign customer to whom credit has been extended is apparent. Even though the firm may be one of the highest financial standing and the credit may have been granted only after a thorough investigation, changed conditions may at any time seriously affect the credit standing of a foreign as

well as of a domestic firm. Successful credit men confirm the credit reports they have on file at least once a year. They also make use of any new avenues of information which may be brought to their attention. A close scanning of the various trade bulletins and trade papers often results in the acquisition of valuable information in regard to business conditions in foreign markets which materially affects the credit status of the firms located in those markets. In case of panics, unfavorable conditions in regard to exchange, business depressions, and similar conditions, the credit man must guard his accounts in those countries with especial care and be prepared to act promptly in case of emergency.

The Collection of Foreign Accounts.—Even when the greatest care is exercised in the extension of credit it occasionally happens that foreign customers become delinquent in making payment. The first thing for the credit department to ascertain is the reason for this delay. It may be dissatisfaction with the goods and the consequent demand for discounts or deductions, or it may be the inability of the customer to meet his obligations when due.

If payment is not made because of dissatisfaction on the part of the customer, the wise credit man makes every effort to come to some amicable settlement. In every case where a claim is made for shortages, for damages incurred during transit due to poor packing, or for other allowances, the most careful attention must be given to the complaint. If it seems at all probable that the claim is well founded, fair and even generous allowances are advisable. In deciding as to the justice of the claim, the reputation of the customer, his record in dealing with other firms, and his standing in business circles have great weight. As a rule, when a reputable foreign firm of excellent business standing makes a claim there is good reason for it. If claims are to be allowed, this should be done promptly. Protracted correspondence and objections, with the final and seemingly

unwilling capitulation of the creditor, only result in the loss of prestige and the loss of business. On the other hand, readiness to admit and rectify mistakes often results in the obtaining of new and important business. All correspondence with foreign debtors should be conducted with tact and politeness; a brusque or too direct statement may be deeply resented by a Latin American or other foreign customer, even though no offense was intended. Courtesy is a valuable business asset.

While the policy of adjusting claims made by foreign customers in a spirit of fairness and even of generosity is generally advisable, there are, nevertheless, instances wherein the foreign customer makes unwarranted and unfounded complaints and claims. These probably occur no oftener in foreign than in domestic business. When a claim is patently unwarranted, a full explanation of the facts, coupled with a firm though politely couched refusal to allow the claim, is necessary. If payment is still withheld, the mediation of a bank or other agency is sometimes sought with good results. If all efforts for amicable adjustment fail, the services of a lawyer may be necessary. Only such foreign lawyers as have been recommended by a bank or mercantile agency are retained. Whenever possible, litigation is avoided, as a non-resident trying to collect a debt in a foreign court labors under certain disabilities and disadvantages which need not be enumerated here.

When correspondence and the mediation of a bank or other third party alike fail to secure the payment of a foreign account, it is generally turned over to the collection department of one of the agencies mentioned in connection with the assembling of credit information. The National Association of Manufacturers has an especially well-organized collection department conducted for the benefit of its members. The mercantile agencies have collection departments which handle foreign accounts. American

banks having branches in the foreign market will usually give assistance in trying to force collection of a draft, and where litigation is necessary such banks will engage a reputable lawyer for the American manufacturer.

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CHAPTER XVI

FINANCING EXPORT SHIPMENTS

Handicaps to Our Export Trade.—Superiority of products, indomitable energy, and unflagging enterprise, combined with a great wealth of natural resources, have made the United States a leader among the nations of the earth in international trade. In competition with the exporters of other nations, our manufacturers and exporters have been handicapped in more than one respect. An inadequate merchant marine and banking facilities for the extension of foreign trade far inferior to those possessed by the other great commercial nations have been two handicaps to our foreign trade development. Until recently the facilities for financing exports have been entirely inadequate, and in no way comparable with those at the service of the English and German exporter. The comparatively long-term credits demanded in many markets make it essential for the manufacturer to have banking facilities that enable him to realize on his shipments before the customer pays for them.

In the words of an officer of the Guaranty Trust Company of New York: "The basis for the successful commercial attainments of England and Germany is to be found in the underlying system of credits granted by bankers to importing and exporting houses. Similar and just as effective results may be obtained for Americans by combined efforts along the same lines."

Banking Facilities Needed.—The first consideration of the average manufacturer or exporter in developing trade with other countries is the willingness and ability of the

domestic banks to discount or buy commercial paper based on legitimate business transactions with other nations. Only when a manufacturer can depend upon being able to sell his drafts on his foreign customers to an American bank, preferably to the one he does business with, is he able to extend the credit necessary to the successful carrying on of an extensive and profitable foreign trade. Of course there are exceptions to this in the case of very large and prosperous manufacturers, but the number of such concerns is comparatively few.

While the direct financing of foreign shipments by buying or discounting the drafts drawn against such shipments is the primary banking facility demanded by those engaged in foreign trade, there are other ways in which banks have a direct and highly important part in trade development. These include the assembling of reliable credit information in regard to foreign merchants and importers and the furnishing of such information to American exporters upon request, the guarding of our exporters against losses through fluctuations in exchange, and the arranging, either through correspondent or branch banks located in foreign countries, for the collection of payment for the goods when such payment is due. In case the shipment is not accepted by the importer, the exporter must depend largely upon the correspondent or branch bank to make the best arrangements possible for the disposal of the goods to the best advantage.

Benjamin Joy, Vice-President National Shawmut Bank of Boston, says in regard to the functions of banks in furthering export trade: "The exporter must take the selling risk and the bank must take the financial risk. The bank's responsibility is the collection of up-to-date and accurate information, the offering of proper facilities for financing the merchant in the most economical way, and for the proper handling of the shipment at the other end and the collection of the amount involved when due."

The Federal Reserve Act of 1915 made it possible for

American banks to extend the needed facilities for the development of foreign trade, and the leading banks are taking advantage of this and showing a disposition to extend to the exporter the facilities thus made possible. A brief consideration of the provisions of the Federal Reserve Act directly relating to foreign trade is necessary.

Effect of the Federal Reserve Act.—There are three provisions of the Federal Reserve Act of the greatest importance to all engaged in foreign trade. The first is the provision authorizing the various Federal Reserve Banks to rediscount “notes, drafts, or bills of exchange arising out of commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, of which the proceeds have been used or are to be used for such purposes.” The second is the provision authorizing any member bank to accept “drafts or bills of exchange drawn upon it and growing out of transactions involving the importation or exportation of goods having not more than six months sight to run.” It is further provided in this connection that such acceptances may be rediscounted at any Federal Reserve Bank when they have a maturity at time of rediscount of not more than three months. The third provision having direct bearing on our foreign trade is the one authorizing American banks having a capital and surplus of \$1,000,000 to establish branch banks in foreign countries.

The first provision referred to makes the discounting or buying of bills of exchange based on commercial transactions especially desirable for banks, for it provides a ready market for the rediscount of such paper. The second provision permitting bankers’ acceptances affords a convenient means of financing export shipments that was hitherto forbidden by law, although it is a method long used in England and other countries. It will be more fully discussed later. The permission to establish branch banks in foreign countries is looked upon as of the greatest importance. A

promising beginning in that field has been made in Latin America, where the National City Bank of New York made the initial step in November, 1914, by establishing a branch bank in Buenos Aires, Argentina. This was followed by the establishment of other branches from time to time in Latin American and other countries. The International Banking Corporation has established branches in India, China, Japan, and elsewhere. The Mercantile Bank of America, the Asia Banking Corporation, and the Guaranty Trust Company of New York were early in the field with branch banks in important trade centres. Other banks are rapidly taking up the work, so that the banking facilities offered the American exporter are fast becoming the equal of those offered by the other leading commercial nations.

Methods of Financing Exports.—Drafts used in connection with the financing of exports are of two classes: first, those drawn on banks or bankers; second, those drawn on individuals, usually upon foreign customers.

Those of the first class are referred to as bankers' acceptance or acceptances. In accepting such drafts banks are extending credit either to the American exporter, or to the foreign importer, who arranges for such acceptance through his local bank.

Those drafts drawn on individuals are usually documentary drafts, *i. e.*, they are attached to the bills of lading, insurance certificate, and other documents required in making export shipments. Bankers' acceptances and documentary drafts are quite distinct, and their use must be carefully distinguished.

Bankers' Acceptances.—Since the passage of the Federal Reserve Act the use of bankers' acceptances as a means of financing export shipments has become usual. The exporter draws a sight draft (usually for sixty or ninety days) on the bank for the amount of the shipment. When this draft is accepted by the bank it is discounted by the ship-

per, either at the bank upon which it is drawn or elsewhere. He is thereby enabled to realize on his shipment before it leaves the United States. The bank charges a commission for its acceptance. A feature of this plan is that returns from the shipment, which is sold under the usual documentary-draft arrangement, are received by the shipper by the time he is required to take up his draft on the bank. If there is delay, the bank will ordinarily renew its acceptance for a reasonable period.

Bank acceptances have been the standard credit instrument in Great Britain and other countries for years. By their use the element of risk is eliminated, so far as the purchaser of the draft is concerned. They command the best discount rates in the market; in fixing the discount rate, only the interest on the money paid for the bill until its maturity is considered. It is thus seen that the acceptance of a draft by a bank of repute makes such a draft, known as an acceptance, easily marketable. The acceptance brings the banker an interest return and makes the conversion of the draft into money by the exporter an easy matter. Since a draft drawn by an exporter against a foreign shipment is made large enough to cover the discount and other expenses, the exporter can extend the usual sixty or ninety days credit to his foreign customer without losing a day's interest on the amount of the bill. When he discounts the bill of exchange he receives the full amount of the invoice plus the cost of shipping, insurance, etc.

While the importer has these charges to pay, he is, nevertheless, buying under favorable conditions, for he is not required to pay the bill until maturity. He thus has the goods in his possession before he has paid for them, and may dispose of them before the time of payment is at hand.

The advantage to the bank which accepts a draft is thus expressed by John Clausen, vice-president of the Chemical National Bank of New York:

The power of a bank to accept a draft or bill of exchange enables it to make use of and to sell for a consideration its credit, and so lend, for legitimate use in trade, vast sums without depleting its reserve or impairing its capability in making additional loans and advances to its clients.

Bank acceptances based on credit established by the foreign customer through his local bank are also used to a limited extent. In this case, the foreign customer arranges with his local bank to request its American correspondent bank to accept for its account a documentary draft drawn by the exporter. At the time agreed upon for the payment of the goods the American bank looks to its foreign correspondent for cover. The draft drawn by the exporter on the American bank is usually discounted by the bank accepting it. Thus, the exporter has his money for the shipment and the foreign buyer has the advantage of a term of credit. He pays his local bank a commission for arranging the acceptance. A foreign firm of the highest standing may be able to arrange directly with an American bank for its acceptance of the draft drawn by the exporter, though the acceptance is usually arranged through the buyer's local bank.

Discounting Documentary Drafts.—As the usual method of extending credit to a foreign importer is by means of the documentary draft, drawn on the foreign customer, payable either upon the delivery of the goods or at a later date, so the common method of financing export shipments is for the exporter to dispose of the documentary draft drawn on his foreign customer either to a bank or to a broker. Such drafts are said to be sold or discounted, the words being used interchangeably. Clean drafts are disposed of in the same way. The bank or broker has recourse to the drawer of the draft in both cases, that is, the drawer of the draft is responsible for its payment. In case of a documentary bill of exchange, which is another name for a documentary draft, the bank or broker retains

a lien on the goods until the draft is satisfied. The usual period for which such drafts are drawn is either for sixty or for ninety days after sight.

The documentary bill of exchange consists, as explained in the chapter devoted to The Extension of Credit, of the draft, the bill of lading, the insurance certificate, and the invoice. Each of these documents is issued in duplicate, in case one set may be lost. They are plainly marked "original" and "duplicate." Instead of marking one draft original and the other duplicate, the words "first of exchange" and "second of exchange" are often used. The set of original documents is sent by the steamer in which the merchandise is shipped or by a faster one; the duplicate set is sent by the next steamer.

For many years the custom has prevailed of drawing foreign commercial drafts either in pounds sterling or in the money of the country to which the goods are shipped. It is estimated that three-fourths of the drafts drawn in international trade have been in pounds sterling. The establishment of "dollar exchange" is desirable for many reasons, and a well-organized effort to bring this about has produced tangible results, especially in our trade with Latin America. This subject is more fully discussed in the chapter devoted to the subject of Foreign Exchange.

When a foreign commercial bill of exchange is drawn in sterling or other foreign currency, the expenses, such as commission charged by the bank or exchange broker, interest, postage, and other incidental expenses, are indirectly charged to the drawee, by the simple method of fixing the rate of exchange so as to include these.

In case the draft is drawn not in sterling or other foreign money, but in dollars, the total of these charges must be added to the cost of the shipment. When this course is pursued, a direct understanding to this effect is necessary; otherwise, the drawee may refuse to pay the charges. Likewise, objections may be made to including these in-

cidental expenses in the amount of the draft when it is drawn in sterling or other foreign money unless it has been agreed upon that the rate of exchange prevailing in the American market on the day of shipment is to be the rate by which the conversion from dollars is to be made. Such agreements are easily made in advance and they are important because they avoid misunderstandings, dissatisfaction, and loss of business.

In disposing of a foreign commercial bill of exchange to a bank or in forwarding one for collection through a bank it is necessary to give definite and exact instructions in regard to the delivery of the documents, the action to be taken in case of non-acceptance or non-payment of the draft, and of the disposition to be made of the shipment if for any reason it is not taken by the consignee. Included in the instructions are the exact conditions in regard to payment. If payment is to be made upon delivery of the papers, the words "documents for payment" are used, signifying that the bill of lading and the consequent possession of the goods are to be withheld until the draft is to be paid. The letters d. p. are used to express this condition. If the delivery of the documents, which gives possession of the goods, is to be made upon acceptance of the draft by the drawee, the words "documents for acceptance" are used. This may be expressed d. a. The use of such abbreviations, however, is not favored by careful exporters. The writing out clearly and definitely of all instructions is preferred, as by so doing misunderstandings are often avoided.

As has been said, a bank discounting a documentary draft for an exporter has recourse to the latter in case the draft is not satisfied by the importer. Thus, the financial responsibility of the drawer of a draft is of paramount importance, though the nature of the merchandise and the country to which it is being shipped are also important considerations. If the goods are of a perishable nature the

risk is greater; likewise, if they are of special design and are not of staple character the risk is increased, for the chances of disposing of them to advantage in case the consignee does not accept them are less than in the case of standard machinery or of such staple products as wheat and other raw materials. The reputation of the drawee is also considered by the bank discounting a commercial bill of exchange, but this is of much less importance than that of the drawer of the draft, to whom the bank looks for reimbursement in case the draft is not covered at maturity.

Del Credere Guaranty.—The negotiation of a documentary draft is sometimes facilitated by the use of the so-called *del credere* guaranty. This is a guaranty given by a foreign bank that the importer will pay for the goods according to his agreement. The guaranty is usually given through the American correspondent of the foreign bank giving the guaranty. The conditions specified vary according to the agreement entered into between the exporter and his customer; this may provide for payment upon the arrival of the goods in the foreign market or upon the maturity of the draft. In any case, though it does not insure immediate payment to the shipper, it makes the selling of the draft on the customer thus guaranteed a comparatively easy matter. If the customer fails to meet his obligation, the shipper has recourse to the bank which gave the guaranty. The customer pays the foreign bank a commission for making this guaranty.

A Typical Transaction.—Since the discounting of documentary drafts is the commonest method used in financing export shipments, a definite understanding of the entire transaction is of the utmost importance. This will be made clearer by tracing such a transaction from the beginning to the end. Let us say that the firm of Wheeler & Layton, manufacturers of agricultural machinery in Illinois, agrees to sell to Rodrigo Martinez, a Brazilian merchant, a consignment of ploughs, the invoice price of which

is \$1,000. No c. i. f. quotation is made, but it is agreed that Wheeler & Layton are to pay the inland and ocean freight, the marine insurance, the cartage and other shipping expenses, and add these to the invoice price of the ploughs. It is also agreed that payment is to be made by means of a ninety-day documentary draft, drawn in dollars, and that the expense of negotiating this draft is to be borne by Rodrigo Martinez.

When the ploughs are ready for shipment, they are sent by rail to the port decided upon, which we will say is New York City. The freight is prepaid. The railroad bill of lading and the invoice, with the certificate of insurance, if that has been secured, are immediately forwarded to the agent of Wheeler & Layton at New York. Both the bill of lading and the insurance certificate are drawn to the order of Wheeler & Layton. Their agent in New York is either given a power of attorney which gives him legal authority to indorse them, or they are indorsed in blank before they are forwarded to him.

When the ploughs arrive in New York, the agent attends to all the details of shipment, as outlined elsewhere, and then presents the draft covering the full amount due Wheeler & Layton, with the other documents, to the bank or exchange-broker with whom he has arranged to negotiate the bill of exchange.

The draft is drawn in dollars, as agreed; it is drawn on Rodrigo Martinez, and reads "Ninety days after sight of this first of exchange (second unpaid), pay to the order of ourselves \$1,220.00, value received." The name of the steamship on which the ploughs are shipped is inserted, as is a statement indicating the nature of the shipment. This draft is signed by Wheeler & Layton. It was either drawn by them and forwarded to their agent with the invoice and bill of lading, or it was drawn later on telegraphic advice of the exact amount of the expenses to be included, indorsed in blank, and sent by registered mail to the agent

or to the bank discounting it. For even an authorized agent to sign any of the documents forming part of a commercial bill of exchange is not good practice, and usually makes the negotiation of such a bill of exchange difficult. This difficulty is overcome, when time permits, by the agent sending all of the documents to the shippers for their signature. It is more satisfactorily overcome by Wheeler & Layton securing a through bill of lading from the railroad company, which included the steamship bill of lading, and by their negotiating the bill of exchange through their local bank. This is being done more and more in case of car-load shipments, but is not yet the prevailing custom.

The New York bank examines each document with great care, and if all are found to be correct and complete in every detail, discounts the draft at the rate agreed upon. As it is drawn for an amount to include the discount, Wheeler & Layton receive payment in full for the amount of the invoice plus all expenses. The New York bank indorses the draft and forwards it to its correspondent bank in the Brazilian city where Martinez lives. This bank notifies Martinez to call and accept the draft. He does so, and is then given possession of the bill of lading and other documents, which enable him to get the ploughs from the warehouse. Complete instructions as to the delivery of the documents accompanied the bill of exchange, so that no misunderstanding would occur. The directions on this draft read "Documents upon acceptance." If they had read "Documents upon payment," Martinez would have been obliged to pay the draft before maturity if he desired to get possession of the documents and so of the ploughs. In this case the local bank would have allowed him the prevailing rate of discount for the number of days the draft was paid before maturity.

Two methods of financing exports, which do not, however, involve the extension of a term of credit to the customer,

may be considered here. These are the commercial letter of credit and confirmed credit.

Commercial Letters of Credit.—A large proportion of our import business has been transacted by the use of commercial letters of credit. A letter of credit is an authority from the banker who signs it to the banker to whom it is addressed, upon certain conditions to honor the draft of the person named in it. Occasionally letters of credit are addressed to the firm from whom the goods are purchased instead of to a bank in his country.

The usual conditions set forth in a letter of credit are the presentation by the shipper of the documents showing that the goods have been shipped as directed and the completing of the transaction within the time allotted. As a rule drafts drawn under the letter of credit are at sixty or ninety days sight, though shorter or longer periods are sometimes stipulated.

Commercial letters of credit are being used in export business to a considerable extent. They make the sale of the drafts drawn under them a comparatively easy transaction, as is the case with all prime bank acceptances. If the banker confirms the letter of credit, the transaction becomes one for the shipper of cash against documents, and the bank has no recourse on him, if the goods are not accepted and paid for by the consignee. Its recourse is to the bank signing the letter of credit.

Confirmed Credit.—This is not strictly a form of credit, as it stipulates for the opening of a credit account by the foreign customer with an American bank, with instructions to the bank to accept the exporter's sight draft with bill of lading and other documents attached when the shipment is made. It is called a confirmed credit because the bank with which the foreign buyer opens the account is instructed to notify the manufacturer that such a credit has been established; the credit is thus confirmed by the bank. As the customer has the money in the bank before the ship-

ment is made, he is really paying cash for the goods. He has this advantage, however, that his money is not paid until the goods are actually shipped. The American bank is given exact instructions as to the conditions that are agreed upon as to the shipment, and invariably takes the utmost precautions to ascertain that the goods are being shipped exactly according to the agreement entered in between the foreign customer and the American manufacturer.

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CHAPTER XVII

FOREIGN EXCHANGE

Domestic Exchange.—An understanding of the subject of Foreign Exchange will be made easier by prefacing that study with a brief review of the methods by which exchange between different places in the United States is carried on. Specific illustrations make the comprehension of these methods easy.

Supposing that during the first week of November of last year there was shipped from Chicago to New York City \$2,000,000 worth of merchandise, and during the same week Chicago merchants bought from New York firms goods valued at \$1,500,000. These goods will be paid for, with few exceptions, by means of checks, bank drafts, and commercial drafts. The checks and bank drafts paid by the New York buyers of Chicago goods will be drawn on New York banks. The commercial drafts drawn on the New York firms by their Chicago creditors will be sent to New York for collection through the local banks. So, as the business stands between the banks of New York and the banks of Chicago, the former will be in debt to the latter for the sum of \$2,000,000. But this is offset by the purchases, amounting to \$1,500,000, which the Chicago merchants have made from New York houses. These Chicago buyers will pay their debts by means of bank checks, bank drafts, and by the acceptance and honoring of commercial drafts drawn on them, through their local banks. Thus, Chicago banks, upon which these checks and drafts are drawn or through which the commercial drafts are collected, will be called upon to pay New York banks the sum

of \$1,500,000. Only the balance, amounting to \$500,000, will be transferred from New York to Chicago. But this will not be done unless the balance is in favor of Chicago for some time; one week's balance may and often does quite cancel that of the preceding week, or cause the balance to stand on the other side.

The rate of exchange is determined by the condition of this balance between trade centres. If, in a given week, the balance is in favor of Chicago, the banks of that city, having a goodly credit balance in New York, will be ready enough to sell drafts to merchants or others having payments to make in New York, for this is the easiest and quickest method of getting into their own vaults some of the money due them. In this case, exchange on New York is at a discount in Chicago. But the condition in New York would be just the reverse. Chicago exchange is scarce in New York—there are not enough checks and drafts to cancel New York's indebtedness to Chicago—hence, the New York banks are not anxious to sell any drafts on Chicago banks, for this would mean increasing their indebtedness to Chicago, so they charge a premium for such exchange.

It is understood that in actual business such simplicity as is suggested in the above transactions is seldom found. As a matter of fact, before a balance is struck the entire indebtedness of Chicago, not only to New York banks, but also to all other banks in the country, is compared with the entire amount due Chicago banks from New York and all other points in the United States, and the difference constitutes the balance.

The one central clearing-house of the United States is located at New York. Bankers throughout the United States have correspondent banks in New York where they keep deposits at all times. They are, therefore, always in a position to sell drafts on New York or New York exchange. Balances due from the banks of one city to another are usually paid in New York exchange. New

York City is thus the financial centre of the United States, as it is one of the leading financial centres of the world. Just as the bulk of exchange within the United States is that on New York, so the greater part of exchange in international trade has been on London, though the World War has caused New York to gain in importance as a financial centre at the expense of London and continental centres. The important banks of the world have for years had deposits in London banks, which enabled them at any time to draw drafts on London. These deposits have, to a large extent, been transferred in international transactions to New York, and dollar exchange on New York is being used instead of sterling exchange on London.

Preliminary Definitions.—Foreign exchange is the system by which commercial nations discharge their debts to each other. The evidences of such debts are bills of exchange, which are bought and sold the same as any commodity is bought and sold. When a bill of exchange is sold by a manufacturer to a banker the latter buys the debt; he pays a sum of money down in return for the payment to him of a larger sum at a later date. The difference in the amount paid and the amount called for in the bill of exchange is the banker's charge for discounting the bill or advancing the money on it before maturity.

As usually defined, a bill of exchange is an unconditional order in writing addressed by one person to another, requiring the latter to pay on demand or at a fixed time a sum of money to or to the order of a third party or to the bearer. A bill of exchange becomes an acceptance when the drawee has signed his name across it, with the date. It is a negotiable instrument transferable by indorsement.

The term draft is used interchangeably with the term bill of exchange, although, strictly, all drafts are not bills of exchange. A draft is not necessarily a negotiable instrument, as it may be drawn subject to certain conditions, as the arrival of goods at a stated place. Bills of exchange,

then, are the most common form of draft, but every draft is not a bill of exchange.

A check is a draft drawn on a banker payable on demand to the payee, or to his order, or to the bearer. Sight drafts and demand drafts may be drawn either on bankers or on other persons. A check can be drawn on a bank only when the drawer has funds in the bank; a draft may be drawn by agreement upon a bank when the drawer has no funds on deposit. Not until a draft is accepted does it become an obligation on the drawee.

The drawer of a draft is the person who draws or signs it; the drawee is the person on whom it is drawn, and who is expected to pay it; the payee is the person to whom or to whose order it is to be paid. The payee may be the drawer, the drawee, or any third person. The indorser of a draft or bill of exchange is the person who signs his name on it other than as drawer or acceptor. He does this in order to transfer title to it or in order to guaranty its payment. A bill is indorsed in blank when no person is specified to whom it is to be paid. It may be indorsed payable to some specified person or to his order; a person so specified is the indorsee.

Occasion for Exchange.—By means of foreign exchange a payment of any indebtedness in one place is exchanged for a payment in another place. A merchant in New York owing a London exporter for a bill of goods may discharge his debt by buying a bill of exchange, in the form of a banker's check on London, which is forwarded to London and there paid to the exporter. The New York merchant pays his money in New York; the same amount of money but not the same money is paid to the exporter in London. The intermediaries are the New York and London banks involved.

The typical example of this buying and selling of debts involves four parties, two located in one country and two in another. We will say that A and B live in the United

States and C and D live in England. A sells goods to C; D sells goods to B. A draws a draft or bill of exchange on C and sells it to B. B buys it because he wishes to cancel his indebtedness to D; B therefore remits this bill of exchange to his creditor D. The draft is drawn on C, so D presents it to C, who accepts it and pays the amount stipulated upon maturity. In this case, only one draft was required to cancel two debts between four people.

In actual practice, commercial transactions do not thus offset each other, either in amount or in time. Hence, a bank is necessary as an intermediary. Therefore, A draws on C and sells this bill of exchange to his bank in New York. D draws on B and sells his bill of exchange to his London bank. A's bank forwards the bill of exchange on C to its London correspondent for collection; D's bank forwards the bill of exchange drawn on B to its New York correspondent for collection. The collections are made at the time of maturity. If the amounts specified in the two bills of exchange are equal, two transactions balance each other; if the amounts differ, there is a balance to be settled between the banks.

While the importation and exportation of goods between countries give rise to the greater number of transactions in foreign exchange, there are many other factors to be considered. The indebtedness of the United States to other countries may arise in the importation of goods, in the expenses of Americans travelling or residing in foreign countries, in the cost for transportation of goods in ships owned abroad, and in the interest due on foreign capital invested here. All payments made on money loaned in the United States by foreign capitalists, all sales made by foreigners of American securities previously bought, all remittances of foreign-born residents of the United States to their relatives in foreign countries, all gifts and benefactions made by Americans to the people of other nations, and all loans and investments made by American capitalists in foreign

countries are transactions which involve the remitting of money or of commercial paper from the United States to other countries.

To offset these are payments for our exports, loans made by foreign capitalists to Americans, investments made by foreigners in America, interest or dividends received by our capitalists on money loaned or invested in foreign countries, the proceeds of the sale by Americans of foreign securities previously bought, and all other transactions which involve the remitting of money or of commercial paper from other countries to the United States.

The Buying and Selling of Exchange.—All large American banks conducting a direct foreign exchange department have correspondent banks in the principal financial centres of foreign countries in which they maintain accounts. In this way such a bank is able at any time to sell a bill of exchange on any of the trade centres of the world. It sells to the customer, for cash or for his check, a bill of exchange payable at a specified time in the foreign city. The term bill of exchange is used to signify checks, demand drafts, and drafts payable at a certain number of days after sight or after date. Telegraphic and cable orders are also sold in the same way as bills of exchange.

In addition to selling exchange, banks also buy exchange. A merchant or other person having a commercial bill of exchange drawn on a debtor in a foreign country often desires to secure immediate payment. In that case he goes to a bank or exchange-broker and sells it at a fixed discount rate. The terms "sale" and "discount" are used synonymously to describe this transaction. When a bill of exchange is sold, it is said to be negotiated. Such a bill is indorsed when the transfer is made. The word exchange is often used, as in the first line of this paragraph, to designate a bill of exchange.

The Discount Rate.—The discount rate, referred to in the preceding paragraph, is the rate per cent at which banks

and exchange-brokers discount the various classes of bills of exchange which they buy. In countries having government banks, this rate tends to be uniform throughout the country. In the United States the rate differs in various parts of the country. However, the official rate of the Bank of England has had a powerful influence upon the discount rate in every financial centre. This rate is established at the regular meeting of the board of directors on Thursday of each week. In normal times the official discount rate thus established may remain unchanged for weeks, depending upon the condition of the money market as indicated by the prevailing interest rate.

Private banks in England usually have a private rate, which is lower than the official or bank rate, as it is often called.

The rate quoted on prime bank acceptances, which are sixty or ninety day bills drawn on banks, fixes the level of the market. Bank-bills are always discounted at the best rates. The rate for commercial bills of exchange is about $\frac{1}{2}$ per cent higher than for bank-bills of exchange having the same time to run.

Monetary Systems.—The failure of the commercial nations of the world to adopt a uniform monetary system greatly complicates exchange transactions. A knowledge of the monetary systems of the different commercial nations is essential to an understanding of foreign exchange. We will consider the money of the leading commercial nations other than the United States.

The monetary system of Great Britain is the most important of all, because the great bulk of foreign exchange has long been drawn in sterling. The pound sterling is equal to 20 shillings, 1 shilling is equal to 12 pence, and each penny is equal to 4 farthings. The English pound is often called the sovereign. It is the largest unit of money with the exception of the Peruvian libra and the Egyptian pound. The pound sterling has been for over a century the basis

of international exchange. The effect of the World War has been to promote the use of dollar exchange. This will be discussed later.

The mark or reichsmark is the principal German coin.

France has for its principal coin the franc, which is divided into 100 centimes. Belgium and Switzerland have the same monetary system as France. Italy has practically the same system, but uses different names, the coin corresponding to the franc being called the lira. It is divided into 100 centesimi. Greece, Spain, Bulgaria, Rumania, Serbia, Austria-Hungary, and Finland all have monetary systems similar to that of France, the unit being a coin of the value of the franc.

The Mint Par of Exchange.—These monetary systems are better understood by comparing the unit of one country with that of another. This is done by comparing the amount of gold contained in the currency unit of the two countries. This is called the *mint par* of exchange. It is the fixed, intrinsic value of the standard coin of one country expressed in terms of another. The mint par of exchange between the United States and England is the actual value in dollars and cents of the pound sterling, according to the weight and fineness of the gold in the two coins.

The *mint par of exchange* between any two countries may be readily determined by dividing the weight of the pure gold, as fixed by law, contained in the gold unit of one country by the weight of the pure gold, as fixed by law, in the gold unit of the other country. In case of silver monetary units, the exact value of each may be ascertained in gold and then the comparison made. Gold is the generally accepted standard of value. It is the only metal of which the value is fixed by law. The price of silver fluctuates according to market conditions.

The mint par of exchange of the pound sterling or sovereign in United States money is \$4.8665; of the franc and

lira, 19.3 cents each; of the reichsmark or mark, 23.8 cents.

The Rate of Exchange.—While the mint par of exchange is stationary, the *commercial par of exchange*, or the price paid for a bill of exchange in one country on another, is subject to fluctuations. The commercial par of exchange is the same as the mint par of exchange when a demand draft on one country sells in the other for the exact equivalent in coin of its face value. Theoretically, this is the case when the debits and credits between two countries are exactly equal. For example, if the United States owed England precisely the same amount as England owed the United States, the price of exchange would be at par. If England owed the United States more than we owed England, the demand for exchange on England would not equal the supply, with the result that sterling exchange here would be at a discount. The reverse would be the case in England, where there would be an active demand for exchange on the United States, with the result that it would be at a premium.

The Gold Points.—The fluctuation in exchange is limited to the cost of transporting the coin or bullion between the two countries involved. This cost of transportation includes the cost of packing, shipping, insurance, and the slight loss in weight caused by wear in transit. Interest on the money for the period required to transport it from one country to another is also to be added. In normal times, the premium paid for exchange on one country in another will not exceed this cost of transportation; if it does, gold will be shipped in preference to paying the high premium. The cost of foreign exchange thus fluctuates between two points, the gold-exporting and the gold-importing points. Gold is exported when the premium on exchange exceeds the cost of transportation; gold is imported when the discount on exchange exceeds the cost of transportation.

The rate at which gold leaves a country and the rate at which it enters a country are the two extremes in the rate of exchange known as the Gold Points. What has been said applies only when conditions are normal. An embargo on gold, abnormal trade balances, and other unusual conditions making it impossible to pay balances in gold result in extreme fluctuations in exchange.

Fixing the Rate of Exchange.—The rate of exchange has been defined as the price paid for a bill of exchange in one country on another. It is also referred to as the commercial par of exchange. The term exchange is often used to signify the rate of exchange. The rate of exchange is quite distinct from the discount rate, though when a bill drawn in a foreign currency is purchased, the discount is charged in the rate of exchange.

The method by which the rate of exchange is arrived at is of interest. The prevailing rate of exchange for various countries is established in the financial centres or centre of each country. For example, the rates on London, Paris, Antwerp, etc., that is, the rates at which bills of exchange payable in those cities are sold in New York, are established by New York bankers daily. This rate largely determines the rate for other cities in the United States. The determining factor in fixing the rate of exchange is the relation between the demand for bills of exchange and the supply of the same. In the United States at the outbreak of the World War in the fall of 1914 the demand for exchange on England greatly exceeded the supply, because it happened that just at that time there was a balance of indebtedness estimated at about \$250,000,000 of America to European countries. In the natural order of commerce, this indebtedness would have been largely offset by the exportation of great quantities of grain, cotton, and other products usually shipped in the fall. As commerce was practically suspended for the time being, these exports could not be shipped. The balance, therefore, had

to be settled by the use of money or bills of exchange. Gold shipments could not be made, for fear they would be captured by one of the belligerent nations. The *Kronprinzessin Cecilie* attempted to sail for Europe from New York on July 28, 1914, with a consignment of gold aggregating nearly \$10,000,000, but was recalled.

Fluctuations in Exchange.—Such a situation created an unparalleled demand for bills of exchange, with the result that the rate for exchange on London rose far above the usually accepted gold-shipping point of \$4.88½ or \$4.89. The rate of \$5.00 was first quoted, and then, under the general disorganization, quotations of \$6.00 and even \$7.00 were made. In order to restore the rates to something like normal, the New York bankers joined in an arrangement with the Bank of England to ship gold in great quantities to the Canadian Government at Ottawa, at the rate of \$4.90. This had the desired effect of stabilizing exchange until shipments of commodities could be resumed. The excessive rates just referred to, if they had continued, would have meant the financial ruin of many importers and others having obligations to pay in England or elsewhere in Europe.

Hardly had the excessive rates for pounds sterling and for other foreign bills been reduced to about normal before a change in the other direction occurred. This was occasioned by the immense sales Americans made to England and to other foreign countries, which, before the close of 1915, placed the United States in the position of a creditor nation, the indebtedness of other countries to us far exceeding our liabilities. Such a situation created an unprecedented condition—that of an excess of bills on London, and the problem that confronted the exporter was how to obtain cash for such bills. The result was that the rate of exchange on London fell as low as \$4.48½ in August, 1915. Conversely, the unprecedented demand in London for bills on New York caused the dollar to be quoted at a

premium. Our trade balance had become so enormous that the idea of shipping gold to cancel it could not be entertained. It was cancelled in three ways: First, by the sale of American securities held abroad, the return of these securities taking the place of gold shipments. Second, by the sale in America of British and other foreign securities, which created a great credit here in favor of the foreign nation selling the securities. Third, by the actual shipment of great quantities of gold. Our excessive sales could not have been continued without the transfer of securities.

The depreciation of the pound sterling was checked in the period between 1916 and 1919 by government loans made by the United States to Great Britain, supplemented by private loans. These loans created a demand in New York for exchange on London, offsetting the demand for exchange on New York to pay the enormous merchandise balance due the United States. In other words, our exports to Great Britain were offset by our imports from Great Britain plus the loans made to that country. Thus sterling exchange was maintained at not far below par.

In 1919 and 1920, after the artificial props that upheld exchange during the war were removed, sterling exchange fell to the lowest point ever reached, the pound being quoted on August 20, 1919, at \$4.12½. It seemed that the downward trend could go no further, but this proved to be only the beginning. By February, 1920, the pound had fallen to \$3.20. The franc, the lira, and other foreign money units suffered even greater depreciation, while the German mark fell almost to the vanishing-point. At the same time the American dollar stood at a premium in Great Britain, France, Italy, and in all but a few other nations. Wherever the dollar stood at a premium, the trade balance was in favor of the United States; in Japan and certain South American and other countries from which we purchased more than we sold, the demand for dollar exchange was not equal to the supply, with the result that the dollar

stood at a discount in these countries. After the embargo on the exportation of gold was lifted, large shipments of this metal were made to the countries in which the balance was against us, thus offsetting in a measure the tendency for the dollar to be depreciated there.

The following from Moody's *Investors' Service*, New York, sums up the situation in the early months of 1920:

For us this foreign exchange situation points to smaller net merchandise exports, increased competition with foreign goods both at home and abroad, a further decline in ocean freight rates, special competition in such international products as dyes, chemicals, and textiles, and lower prices for the majority of products which are subject to foreign competition.

For Great Britain the monetary and foreign exchange outlook is good; but for France it is filled with great difficulties; while the monetary position of Germany and Italy is very uncertain indeed. The European neutrals and Canada, Australia, Japan, and the South American countries are in good shape.

The depreciation of the bills of Great Britain, the European small neutral nations, and of South American countries may be attributed mostly to trade balances, and to their heavy purchases of foreign goods; but the depreciation of francs, marks, lira, and kronen seems to be due almost wholly to the paper-money inflation.

Exchange Quotations.—Quotations of foreign exchange rates are published each day in leading city papers. Quotations are for checks or demand drafts, cable transfers, and time drafts. Exchange on each country is quoted differently. For instance, the quotation for sterling is given by stating the rate in United States money per pound. On the other hand, the rate for French francs is stated as the number of francs and centimes allowed for a dollar; it is expressed thus: 5.15, meaning that 5 francs 15 centimes are allowed for one dollar. The quotation on Germany is made by stating the price allowed in United States money for 4 marks; it is expressed thus: 95 $\frac{1}{16}$, indicating that this is the number of cents allowed for 4 marks.

The method used in making quotations will be made clearer by considering the following, as published in New York papers on the dates indicated. It is interesting to note the fluctuations, due to abnormal conditions brought about by the war. The depreciation of the foreign currency unit is apparent.

	DEMAND OR CHECK		
	July 1, 1914	July 1, 1915	December 9, 1916
London.....	\$4.87½	\$4.76⅛	\$4.72½
Paris.....	5.16¼	5.70	5.85
Berlin.....	.95⅛	.81⅛	.66¼

Advantages of Dollar Exchange.—The larger part of our imports and exports has been bought and sold in terms of foreign currency. When we buy from England, the price is quoted in pounds sterling; when we buy from Germany, the price is quoted in marks; when we buy from France, the price is quoted in francs. Again, when we sell to Germany, we find it necessary to quote prices in marks; when we sell to France, we must quote prices in francs, etc. In trading with smaller countries prices are quoted in pounds sterling; the result is that the pound sterling has for a century been the basis of international exchange. Two conversions have thus resulted in many transactions; from the money of the first country into sterling and then into the money of the second country involved. This has been a great advantage to English banks and commercial houses, which charge a commission for every conversion or exchange made. The disadvantage the United States has suffered in having to buy and sell in other currency than our own is this: in the first place, we have had to pay tribute to England or to other foreign bankers in the form of commission for conversion; in the second place, in credit transactions involving time drafts there

are often serious losses due to fluctuations in the commercial par of exchange. The establishment of dollar exchange will, in the words of an officer of the National Shawmut Bank of Boston, "do much to help our foreign trade. In its essence it will guaranty to the exporter that he will receive the actual amount which he has reckoned on as his selling price, and that the importer will pay to the foreign seller the exact amount in terms which he has reckoned on as his cost, both of these being accomplished by eliminating the necessity on the part of our merchants of converting into dollars through the varying media of sterling, marks, or francs."

An excellent illustration of this was given by John E. Rovensky, vice-president of the National Bank of Commerce of New York, in a speech made at the International Trade Conference held in New York City in December, 1915. Mr. Rovensky said:

Let us take as an instance the importation of coffee from Brazil, as the business was conducted prior to the outbreak of the war. The American importer desiring to purchase the coffee was compelled by custom to make his bid in sterling and pay the coffee merchant by means of a sterling commercial letter of credit on a London bank. Under the terms of this letter of credit, the Brazilian coffee merchant drew his drafts in pounds sterling for the value of his shipments at ninety days sight on a London bank. He was willing to accept reimbursement in this form because the ninety-days London draft was readily taken by Brazilian banks as cash, and he could calculate at the time he sold his coffee the value of a sterling draft so drawn within a very narrow margin. The Brazilian banks were willing to cash such drafts for their customers because by discounting them immediately in the London open discount market they could quickly convert them into cash and consequently the transaction involved no tie-up of funds or risk of loss on exchange.

The Brazilian merchant, however, was not willing prior to the passage of the Federal Reserve Act to accept a payment in the form of a three-months draft drawn in dollars. Why? Because there being no open discount market in the United States, either the Brazilian merchant or his banker would have been compelled to

carry the bill in his portfolio until maturity, and this, involving the risk of exchange fluctuations and a lock-up of cash, was of course impracticable.

Now let us see what effect this had on the American importer's business.

When cabling his bid for coffee to the Brazilian merchant, the American merchant was compelled to estimate what sterling exchange would cost him, approximately four months from the date of his cablegram. This period was consumed by the time required for the Brazilian draft to reach London and the three-months tenor of the bill. Therefore, if the American importer sent a quotation to Brazil for a consignment of coffee valued at £10,000, he did not know whether at the maturity of the 90 days draft drawn against such shipment he would be called upon to pay \$48,500 or \$48,900. He was thus compelled to gamble on the course of the exchange market, and if he overestimated the danger of exchange fluctuations, his bid was not as good as that of his foreign competitor, and he frequently lost the business, while if he underestimated the exchange fluctuation he lost money. Our exports and imports to numerous other countries suffered under the same disadvantage. Importers of hides from India, silk from Spain, wool from Australia, etc., did not know what their consignments would finally cost them when the time for payment arrived.

Need of Reciprocal Trade Relations.—Unless we buy from as well as sell to other countries, it will be difficult to carry on transactions in dollar exchange. For instance, if we sell goods to Latin America and demand payment in dollar exchange, this will create a demand in Latin America for New York (dollar) exchange. If we fail to buy Latin American exports, these must and will be sold to other countries. Supposing England takes the bulk of these exports. Then this condition is created in Latin America. There is a demand there for dollar exchange to pay for goods imported from the United States; there is a supply of sterling exchange received in payment of goods sold to Great Britain and other countries using sterling exchange. The result is that dollar exchange, which is scarce, is at a premium, and sterling exchange, which is plentiful, is at a discount.

The Latin American merchant will, therefore, prefer to pay for his imports in sterling, and in placing his next orders he will naturally buy in England or stipulate that goods bought from the United States are to be paid for in sterling and not in dollar exchange. If dollar exchange is to prevail, there must be a supply of it in Latin America. This can be created in several ways, of which the following are the most obvious:

1. By buying Latin American exports, and paying for them in dollar exchange.
2. By American capitalists making loans to Latin American financiers.
3. By American capitalists investing in Latin American securities or in Latin American plantations or other property.

Each one of the transactions indicated involves the sending of money in the form of dollar exchange from the United States to Latin America. Dollar exchange, then, will be offered for sale there, and the Latin American importer will find it to his advantage to buy this to remit to the United States in payment of goods purchased here. Exactly the same principles apply in regard to our trade with other countries.

Arbitrated Exchange.—Arbitrated exchange is often used in business and financial transactions. This is exchange between any two countries through the medium of a third country. By its use money may be remitted from one country to another by means of a bill of exchange drawn on a third country. For instance, a St. Louis importer of goods from Japan, instead of paying in dollar or Japanese exchange, may remit sterling exchange. The use of sterling exchange in arbitrage transactions has been one of the chief factors in making London the financial centre of the world. The importance of such transactions is clearly set forth by David H. G. Penny, vice-president of the Irving National Bank of New York, as follows:

London is the financial centre of the world only because she has been financing so much more trade between other countries and England. New York can only acquire that distinction when this country actually finances trade between other countries and when Americans participate in foreign enterprises and buy foreign securities to create a demand for bills of exchange on New York to liquidate indebtedness and pay interest on those foreign investments.

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CHAPTER XVIII

THE BALANCE OF TRADE

The Mercantile Theory.—The difference between the value of the exports and the imports of a country is referred to as “the balance of trade.” By long-established usage, such a balance is said to be “favorable” when the value of the exports exceeds the value of the imports, and “unfavorable” when the value of the imports exceeds the value of the exports. This use of the words favorable and unfavorable arose during the period when the economic theory known as the mercantile theory prevailed. The fundamental tenet of mercantilism was that the principal benefit to be derived by a nation through foreign trade was the possible addition to its stock of precious metals. Therefore, it was considered that the one aim of governments in regard to foreign trade should be to restrict imports and stimulate exports, for by so doing it was thought the “favorable” balance thus established must result in the importation of gold and silver. Thomas Mun, an early English writer, thus elucidates the mercantile theory:

The ordinary means to increase our wealth and treasure is by Foreign Trade, wherein we must ever observe this rule: to sell more to strangers yearly than we consume of theirs in value. By such a course the balance must be paid in coin, and the country enriched, while a contrary course would deplete its stock of the precious metals.

It has long been established that the theory propounded by the mercantile school of economists is at variance with the facts. Examples innumerable may be cited wherein an excess of exports has not resulted in the importation of

the precious metals, and where an excess of imports has not drawn gold or silver out of the country. As explained in the chapter on Foreign Exchange, there are factors affecting the balance between nations other than the exchange of commodities. One country puts others into its debt not only by the exportation of commodities, but also by loaning or investing money, by rendering services of various kinds, and by attracting foreign visitors, who may be passing tourists or more or less permanent residents, drawing their income in either case from their native land. Thus the international flow of the precious metals is determined by many conditions, and does not follow either an excess of exports nor an excess of imports.

Barter in International Trade.—It is clear that a foreign trade of tremendous volume can be carried on with little or no exchange of gold between the nations involved. International trade thus partakes of the nature of barter, commodities being exchanged for commodities, and not for money. The commodities need not be equal in value, because services may be given or received in exchange for commodities, but this does not alter the fact that a condition of barter largely maintains. As between individual merchants and manufacturers this does not seem to be the case. An American exporter sells manufactured goods to a Brazilian importer and receives in payment cash against documents in New York; he, therefore, may insist that he has sold his products for gold and has not exchanged them for other products. But, as the study of the methods employed in foreign exchange has made clear, the gold he received may have been paid by an American importer of Brazilian coffee, who purchased with it a bill of exchange or a commercial letter of credit from his New York bank, which was duly forwarded to the Brazilian coffee merchant. In essence, then, American manufactures were exchanged for Brazilian coffee. Or a cotton exporter may ship a cargo from Galveston to a French cotton

merchant, and receive in payment a commercial letter of credit on a New York bank. He cashes this and receives money for his shipment, but there is not one chance in a million that this money or an equivalent sum of money was actually shipped from France. That very sum may have been deposited in the New York bank by a merchant in payment of a letter of credit in favor of a Parisian exporter of millinery and laces. The money received by the American cotton exporter did not come from France, and the money paid by the New York importing merchant did not go to France.

If exports are not thus balanced by commodities or by services, the final balance of a nation's credits over its debits, as between other nations, is settled by the transfer of securities, and only in times of temporary stress or under abnormal conditions created by war or panic is gold shipped in great quantities. Since international trade is thus carried on by a species of barter, it is often stated that, in the long run, the imports of a country must balance its exports. A more exact statement of the law is that exports and services rendered eventually balance imports and services received.

The Transfer of Gold and the Balance of Trade.—It has been shown that an enormous favorable balance of trade may be piled up by a nation without causing an influx of gold. It may now be of interest to consider the position of a country that maintains a favorable balance of trade throughout a long period of years, without incurring other liabilities than those resulting from the importation of commodities. Supposing the United States continues to export each year merchandise greatly exceeding in value the commodities imported, and that our citizens cease to travel or live abroad, that our merchant marine is so increased as to carry all of our imports and possibly a goodly share of those of other nations, that our foreign investments exceed the sum total of American securities held abroad, and that

our foreign-born citizens no longer send millions of dollars abroad. We would then be in every sense a creditor nation, and would thus fulfil the ideal consciously or unconsciously cherished by many patriotic citizens. Other nations would then be obliged to settle the balance due us by the shipment of gold, unless our capitalists elected to accept foreign securities. If we insisted upon payment in gold, and the other nations acquiesced, it would not take us long to drain all the gold from all the world, while our vaults and coffers fairly bulged with the precious metals. Even if other nations did not take governmental action to keep out, through tariff and other discriminations, our exports, such a result would be brought about automatically in this way. The excess of gold would result in higher prices—the relative value of dollars and commodities would undergo a change whereby it would require more dollars to buy a given quantity of merchandise. The home market, then, would be superior to the foreign, and domestic rather than foreign trade would be sought by merchants and manufacturers, resulting in a decrease of exports. At the same time, the higher prices would prove an attraction to foreign traders, who would flood our markets with imports. On the one hand, then, exports would be decreased; on the other, imports would be increased. This would continue until the unfavorable balance of trade created had caused a sufficient outflow of the precious metals to reduce their supply to normal and likewise to restore prices to normal.

It has been shown that a continuous favorable balance of trade of any magnitude, which is not offset by other liabilities, cannot be paid by the transfer of gold—that such a transfer would inevitably result in creating such a change in prices as to cause the imported gold to leave the country. There is another proof that brooks no argument, and that is that there is not a sufficient quantity of gold in circulation in the world to offset great trade balances. Such bal-

ances are never paid in silver. The stock of gold in circulation in all countries in 1896 was authoritatively estimated at \$4,144,000,000; in 1916 it had risen, owing to the unprecedented increase in the production of gold, to \$8,000,000,000. Now, the excess of exports over imports of the United States alone for the thirteen years between 1904 and 1916, inclusive, exceeded this amount. There was not enough gold in circulation in the entire world to pay this entire balance. If such payment had been attempted, the United States would now possess all the gold money in the world.

It is interesting to note the total stocks of gold money in the leading countries of the world for two dates for which careful estimates have been made by financiers and statisticians: 1896 and 1916. The amounts are as follows:

	1916	1896
United States.....	\$2,230,000,000	\$672,000,000
France.....	1,384,000,000	778,000,000
Russia.....	1,058,000,000	489,000,000
Germany.....	714,000,000	675,000,000
United Kingdom.....	662,000,000	504,000,000
Italy.....	336,000,000	100,000,000
Austria-Hungary.....	296,000,000	167,000,000

The United Kingdom's unfavorable balance of trade—the excess of her imports over exports—in the single year of 1916 amounted to \$1,679,000,000. Even after her credits for services were deducted her balance of indebtedness was enormous. But even this abnormal balance was not liquidated in gold; it is evident that such liquidation could not be accomplished. While the gold shipments of that year were unprecedented, the greater part of the debt was offset by the transfer of securities. The part securities play in international trade is touched upon in Henry Parker Willis's work on the Federal Reserve in the following passage:

International trade is not carried on upon a money basis, but in many countries payment for large quantities of staple purchases is made in the form of securities based on the enterprises in which the goods thus bought are employed. For example, shipments of steel rails to China for the construction of the railways of that country have been paid for in bonds which have been taken by banking concerns in the country which sold the rails, and then have been transferred to the investors, who, in the last analysis, supply the money. Similar methods of financing have been adopted in dealing with Brazil, and with other South American countries where trade grew up on a basis of borrowed capital. While trade between older nations, as, for example, France and Germany, is not necessarily founded upon international loans of this kind, they nevertheless figure to a considerable extent.

Analysis of Our Trade Balance.—That an excess of exports does not necessarily result in an influx of the precious metals is clearly demonstrated by a brief review of the foreign trade of the United States for the decade from 1900 to 1909, inclusive. In each year of that decade our exports of merchandise exceeded our imports, and yet in the ten years we parted with more of the precious metals than we received, as is shown by the following summary:

Excess of exports of merchandise over imports..	\$4,934,000,000
Excess of exports of precious metals over imports	44,000,000
Total excess.....	\$4,978,000,000

In the ten years under consideration, then, our exports exceeded our imports by nearly \$5,000,000,000, and yet, instead of this resulting in an inflow of the precious metals, we find that our net exports of the latter exceeded the imports by some \$44,000,000. We thus parted with merchandise and precious metals to the value of nearly \$5,000,000,000 for which we received no compensating imports. That this huge sum was not a gift made by Americans to foreigners is clear. As a matter of fact it was necessitated

by our obligations to other nations. It has been shown that even this enormous balance fell short of the liabilities incurred abroad, and that American securities valued at many millions of dollars were transferred to foreigners to liquidate the balance still due.

The eminent statistician Sir George Paish made in 1909 an exhaustive analysis of the trade balance of the United States, in which he estimated the obligations for interest, tourist expenditures, remittances by foreigners to relatives and friends, and freight charges paid foreign carriers for the fiscal year 1909, as follows:

Interest on American securities held abroad	\$250,000,000
Tourist expenditures	170,000,000
Remittances to relatives, etc	150,000,000
Freight on imports	25,000,000
Total obligations other than for imports . . .	\$595,000,000

The excess of our exports of merchandise over our imports in that year was \$410,347,000. This fell \$184,000,000 short of meeting the obligations set forth above. It was taken up by the transfer of American securities.

Let us consider now a decade belonging to the period when our imports uniformly exceeded our exports in value. Our imports showed a surplus over our exports in the period between 1831 and 1840 of nearly \$160,000,000, but this was not accompanied by an outflow of specie. On the contrary, the imports of the precious metals likewise exceeded the exports, so that an addition to our stock of specie aggregating over \$50,600,000 resulted. This inflow of specie was directly due to the sale of state securities in foreign countries; that the inflow did not result from our trade balance is evident, for that was decidedly against us. If an excess of imports inevitably caused an outflow of gold and silver, it can be readily seen that our stock of specie

would have been decreased in the period instead of being increased.

Equilibrium in Foreign Trade.—The fact becomes clear, then, that imports may or may not balance exports, depending entirely upon other factors entering into international transactions, and that an excess of either imports or of exports does not necessarily cause any change in the supply of specie. When the precious metals possessed by a country, or that portion of them used as money, remains practically stationary, the foreign trade is said to be in a state of equilibrium. The economist Cairnes thus explains the conditions necessary to the maintenance of international equilibrium:

The state of international demand which results in commercial equilibrium is realized when the reciprocal demand of trading countries produces such a relation of imports and exports among them as enables each country by means of her exports to discharge all her foreign liabilities—a position from which the following corollary may be deduced, that all payments, due from one country to another or to other countries on other accounts than that of imports, of a permanent character—for example, an annual tribute, interest on borrowed capital, dividends on stock, and so forth—and in excess of similar payments due from these latter to the former, will be represented in the foreign trade of that country by an excess of exports over imports; while, conversely, an excess of payments to be received over payments due will find its commercial expression in an excess of imports over exports. . . . If a country has been a large borrower of foreign capital, and so is indebted to foreign nations in annual interest, or if, again, her people are much given to travelling in foreign countries, and so have occasion to remit annually large sums abroad for which no return is required, under such circumstances her exports will tend to exceed her imports; while, under an opposite state of things, that is to say, if a country has been a large foreign lender, or if it be the scene of travel for the inhabitants of other countries—the imports will tend to exceed the exports.

Two Classes of Nations in International Trade.—It is clear that there are two distinct classes of nations in rela-

tion to the balance of trade. The first includes those nations whose imports, throughout long periods, exceed their exports; the second is made up of nations whose exports regularly exceed their imports in value. Countries whose imports are in excess of their exports fall into two divisions: (1) creditor or capitalistic countries, and (2) borrowing or developing countries. It happens that creditor countries usually have great merchant marines and so have large sums to their credit earned in the carrying trade, and that, being old countries rich in historic associations, they almost invariably attract many tourists, which fact adds to their ability to discharge their debts without parting with an excess of commodities. Thus, the interest on foreign investments, combined with services of various kinds, serve in lieu of exported commodities for the payment of a share of their imports. Consequently, such nations can each year obtain imports exceeding in value their total exports. Surely such a condition is far from unfavorable, though the balance of trade is so designated.

Borrowing or developing countries resemble creditor or capitalistic countries in having an excess of imports during the period in which the borrowing is in progress. A large part of the capital borrowed by such countries is for the purpose of making internal improvements, such as railroads, harbors, power-plants; another large share of it goes to developing farms, mines, and other natural resources. Material needed for such work is imported, a large part of it from the lending country, and it is the importation of this material that causes the excess of imports. It is to be noted that while the loans are being made and the material purchased thereby is being forwarded, the exports of the lending countries are enhanced, but just as soon as interest is collected the opposite is the case.

Countries whose exports exceed their imports likewise fall into two divisions: (1) lending countries that are engaged in financing the operations of other countries, and (2)

debtor countries that are repaying loans previously secured. Countries possessing such an abundance of wealth that their exports consistently exceed not only their imports, but also their total liabilities of all kinds to other nations, customarily receive for the net balance due them either foreign securities or the title to foreign properties. Such lending countries loan their capital not in the form of money, but in the form of commodities; only rarely do foreign loans actually leave a country in the form of specie. Our surplus exports to the United Kingdom during the World War enabled us to obtain valuable securities, which may be considered as promises of future payment. While many of these were our own securities which had been owned by Englishmen, those of other nations were also obtained. The period during which a country's exports exceeds its imports because of its activity in financing foreign enterprises is usually brief. Unless the resources of such a country are practically unlimited, the time will soon come when the interest on foreign investments exceeds the amount of outside loans made each year. As soon as this condition maintains, the lending country becomes a creditor or capitalistic country, which obtains a surplus of imports annually from the countries paying interest or refunding loans. Thus we see that there is a process of evolution continually going on among nations, whereby each country passes through four stages, as follows:

1. The borrowing period, with imports exceeding exports.
2. The interest-paying period, with excess of exports.
3. The loaning period, with excess of exports.
4. The interest-drawing period, with imports exceeding exports.

Present Position of the United States.—The United States remained in the borrowing stage until the late seventies, the amount of capital imported annually exceed-

ing the interest on capital previously borrowed, thus causing an excess of imports. Then our productivity became so great that we were enabled to send out such vast quantities of foodstuffs and raw materials, as well as of manufactures, as to create an excess of exports so large as to pay all interest charges and other obligations, and even, in some years, to cancel a part of our debts abroad. At the outbreak of the World War in 1914, it is estimated that our securities to the value of \$4,000,000,000 were held in the United Kingdom, Germany, France, and in other European countries. Our position was such that we were enabled to so increase our exports as to purchase back all of our securities held abroad that we could obtain, and also to invest heavily in foreign securities. The stoppage of our tourists' expenditures and of a large part of the commissions we had formerly been in the habit of paying to London and other bankers for financing our foreign trade were other factors that combined to convert us in a few months from a debtor to a creditor nation. Our interest and debt-paying period was thus of much shorter duration than it would have been under normal conditions.

The tremendous volume of exports in 1915 and 1916, coupled with the unprecedented rise in prices, affecting practically every commodity entering international trade, created such an astounding balance in our favor—our total credits enormously exceeding our liabilities—that the importation of gold in great quantities followed. The conditions prevailing in 1916 were thus summarized in a publication of the National City Bank in February, 1917:

The balance in favor of the United States in foreign trade, including exports and imports of silver, for the calendar year 1916, was \$3,127,516,344. Merchandise imports increased \$620,000,000 and merchandise exports \$1,939,000,000 over the calendar year 1915, when the balance was \$1,795,189,082. . . . Foreign loans excluding renewals were placed in this country during the year to the amount of \$1,217,464,764. The net importation of

gold was \$529,951,671. According to the definite records, there remained about \$1,380,099,909 to be settled otherwise. The interest and dividend payments upon American securities held abroad are a smaller factor than formerly, and offset more or less completely by similar items coming to us on account of foreign securities now held in this country. The earnings of foreign shipping have been very large during the past year, and we have had to settle for the freights on imports. Remittances to friends have probably amounted to an important sum, but there is little available basis for an estimate. American banks have probably increased their balances or loans in London during the year, but the chief element in balancing the account has undoubtedly been the sale in this market of American securities for foreign owners.

The United States, then, in 1916 became a loaning nation. For the first time in our history our excess of exports more than offset our liabilities, and created for us a credit which was embodied in foreign securities. The still larger credit balances of 1917 and 1918 and 1919 definitely established the United States as a creditor nation. An article published in November, 1918, thus sums up the situation:

The war has turned the United States from a debtor to a creditor nation. Formerly we owed abroad something like \$4,000,000,000, about three-fourths of which sum we have bought back. Moreover, Europe now owes us about \$9,000,000,000—on private account about \$2,000,000,000 in securities, in United States Government obligations over \$7,000,000,000. The world is under obligations to us in interest alone of between \$400,000,000 and \$500,000,000 a year. We must add to this not only our usual credit balance in world trade, but the fact that for several years our manufacturers and exports will be stimulated by the demand for goods in the rehabilitation of Europe. For years to come we will be able to count on an annual credit balance of from \$1,500,000,000 to \$2,000,000,000. That annual indebtedness Europe cannot possibly settle, so that we shall have to leave our money abroad, invested in foreign securities or otherwise participating in foreign industries, all of which will continue to build up our credit position in world finance. The war has placed us in the same position England was in, an exceptional credit position which gave her control of world finance.*

* *Literary Digest*, November 23, 1918. Summary of article in *Wall Street Journal*.

It is thus clear why bankers and others interested in the financing of foreign trade are recommending foreign investments to the American public. It is upon the response to this appeal that the continued excess of our exports over imports depends. The only alternative is for the United States to cease to reach out for foreign trade, being content to sell abroad those raw materials and foodstuffs the world must obtain from us, and only such manufactures as find a ready market with little competition.

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CHAPTER XIX

GOVERNMENT AID TO FOREIGN TRADE

Nature of Assistance.—Every nation that has built up an extensive foreign trade has developed a more or less thoroughgoing system of government assistance for its merchants and manufacturers who are engaged either in exporting or importing. In the United States, two departments of the federal government co-operate in foreign trade promotion. These are the Department of State and the Department of Commerce.

The Department of State works through its diplomatic representatives and through its consular officers, who are stationed in every country of the world. It also makes every effort to secure advantageous commercial treaties with other countries, which enable Americans to trade on favorable terms with other nations.

The Department of Commerce, through the Bureau of Foreign and Domestic Commerce, and in co-operation with the Department of State, gathers information in regard to trade conditions, trade opportunities, and kindred subjects. This trade information is collected and forwarded by United States consuls, commercial agents, and commercial attachés. It is then edited and published by the Bureau of Foreign and Domestic Commerce, and disseminated to those interested.

The Consular Service of the United States.—Prior to 1906 the appointments to the consular service were governed largely by the political influence of the candidates, the fitness and training of the applicant being secondary considerations. The result was that very little effort was made

by members of the service to gather trade data or otherwise promote the foreign trade of the nation in any systematic way. As our foreign trade increased in volume and importance, the business organizations of the country began to demand improvements in the consular service which would place it on an equality with that of other progressive commercial nations. An act passed in 1906, followed by an executive order of the President, provided that consuls-general and consuls of the first seven classes were to be drawn from persons already in the consular service or already in the employment of the State Department, and that appointments to the two lower grades (eight and nine) were to be made from those applicants who had passed an examination to be provided, preference being given to consular assistants and others already in the service. This at once placed the corps of consular officers on a merit basis and made the tenure of office no longer dependent upon the political affiliation or influence of the occupant.

The consular examination provided for the two lower classes of the consular service consists of two parts, the oral and the written. There is also a physical examination. The oral examination has for its purpose the determining of the personal qualifications of the candidate. The written examination includes one modern language other than English; international, maritime, and commercial law; political and commercial geography; arithmetic; natural, industrial, and commercial resources and commerce of the United States; American history, government, and institutions; modern European, South American, and Far Eastern history; and political economy. Candidates who pass this examination creditably are entitled to have their names certified by the board of examiners to the secretary of state as eligible for appointment. The names of candidates remain on the eligible list for two years, unless they are withdrawn or appointment to the service is made before the expiration of that period. These ex-

aminations, it is to be noted, are open only to such candidates as the President shall have designated for examination.

The consular service in 1919 included 4 consuls-general at large, 57 consuls-general, and 241 consuls. The service is divided into 9 classes, with salaries ranging from \$2,000 to \$8,000 per year. The general supervision of the consular service is under a director, who acts subject to the secretary of state. Assistant consuls and interpreters are also provided. Consuls-general have supervisory powers over the other consuls located in their districts.

Consuls are business or commercial agents of the government, and not political agents as are diplomatic representatives. While their most important function has come to be the promotion of trade, this is not their only duty. They must certify to the correctness of invoices of goods exported to the United States, and are expected to make themselves so familiar with prices and products that they can detect any undervaluation that may be attempted; they are required to attend to the issuance of bills of health, stating that vessels leaving for United States ports have complied with the quarantine and other health regulations and that there is no plague or epidemic at the port of departure. Inspection of vessels and other investigations are sometimes necessary on the part of the consul before he can ascertain the facts that he must know before he can issue such a bill of health. Consuls are also charged with numerous special duties in regard to American vessels and American seamen that may come within their jurisdiction; they likewise are intrusted with the task of aiding in the enforcement of the immigration laws of the United States by endeavoring to prevent the departure for the United States of immigrants classed as undesirable and of those excluded by law. They also have many duties to perform in regard to the registration and protection of American citizens residing or travelling in their districts, and are required to

administer the estates, under certain conditions, of American citizens dying abroad.

Despite the multiplicity of duties devolving upon consuls, they, nevertheless, are able to perform a vast amount of valuable services for the commercial interests of the country. Van Dyne, in his work entitled *Our Consular Service*, says: "By far the most important function of our consuls at the present time is the promotion of our foreign trade. This branch of the work has been so greatly developed that our consular service to-day constitutes a vast reporting system covering the entire world, with a central bureau of information at Washington. The consuls are the news-gatherers and reporters, ever on the lookout for information of interest to the American business public. The editors and publishers are the Departments of State and Commerce. . . ."

That the principal business of American consuls is to take care of the commercial interests of their countrymen is well understood, but the exact nature of their work is not so easily grasped. In the words of Foreign Trade Adviser William B. Fleming of the Department of State, "they make careful studies and critical analyses of our import and export trade in their several districts. They search out the resources, industries, and commerce in their several fields. They report the possibilities of business and trade opportunities and obstacles in the way of the expansion of American trade, and suggest the means of overcoming these obstacles. They make a study of the customs tariffs and customs regulations of the country in which they are stationed and the effect of these on American trade, and transmit copies of these laws and regulations and the amendments thereto. They report all cases of discrimination against American interests, how this discrimination is effected and the policies upon which the discrimination is based. They also study and report on freight rates, of railways, canals, and oceans, also on the bounties given

by foreign nations. They also report on wages of labor and other items of the cost of manufacture of products, and the prices at which manufactured products are sold for domestic use. They work in co-operation with the American ministers and ambassadors and assist these officers of the government in commercial matters and in the effort to correct erroneous customs charges and to prevent undue detention of goods and ships. Tradition has long given to the consuls a certain prestige which affords them an open door to the sources of information—doors which are not accessible to purely commercial agents.”

This service “affords information, offers advice, broadens opportunity, secures equality of treatment, suggests initiative, and inspires confidence in multifarious enterprises in foreign countries that would not and could not be undertaken by our citizens if such governmental service did not exist. It points the way of opportunity, but leaves the detail of execution to the ability and willingness of the beneficiary private interests.” The efficiency of our consular service is now recognized as being equal or superior to that of any other nation.

Consular Reports.—The trade information obtained by consuls is forwarded to Washington, where it is edited and published under the direction of the Bureau of Foreign and Domestic Commerce. The consular reports thus published are the following:

1. *Commercial Relations*. Annual.
2. *Monthly Consular Reports*.
3. *Daily Consular Reports*.
4. *Confidential Trade Opportunities Reports*.
5. *Reports on Foreign Trade Restrictions*.
6. *Special Consular Reports*.

1. The annual publication known as *Commercial Relations* contains a somewhat detailed description of the imports and exports, improvements in transportation facili-

ties, development of new industries and growth in old ones in the country in which the consul is stationed, with definite suggestions for the extension of the trade of United States exporters in specific lines.

2. *Monthly Consular Reports*.—The nature of these reports is indicated in the directions issued to consuls when the publication was begun in 1880. They were instructed "to prepare reports on all subjects which may be calculated to advance the commercial and industrial interest of the United States" and to make the information given "explicit and comprehensive, so that our merchants, manufacturers, agriculturalists, exporters, and importers shall fully understand the peculiarities, wants, and requirements of the several markets, as well as the best methods of reaching the same."

3. *Daily Consular Reports*.—Since 1898 those portions of the reports of consuls containing information that requires quick action has been issued daily. Whenever some important trade development is to be reported, the consuls are instructed to make use of the cable to inform the State Department. If this is of interest to a large body of those engaged in foreign trade, it is published in the *Daily Reports*. If it concerns only a few interests, it is privately transmitted to them. *Daily Reports* are distributed free to firms and associations interested.

4. *Confidential Trade Opportunities Reports*.—These, as just explained, contain information in regard to trade opportunities that are of interest only to a few firms or to a restricted number of firms; hence, they are conveyed directly to them, instead of being published in the *Daily Reports*.

5. *Reports on Foreign Trade Restrictions*.—These are issued as the information is obtained from time to time. They contain specific information on foreign customs regulations and tariff laws, foreign laws in regard to the importation of foods affected by pure food laws, etc., and foreign patent and trademark laws.

6. *Special Consular Reports*.—These embrace a wide range of subjects. "Some present a survey of the entire world's markets for certain lines of goods; others contain an intensive study of particular fields and particular lines; still others furnish a general study of some country or groups of countries." They are usually made up of reports on the subject in hand from many consuls, though this is not always the case. An excellent example is the booklet entitled *Export Trade Suggestions*, which contains extracts from the reports of various consuls and data from other sources.

Other Consular Aid to Exporters.—While the aid afforded American exporters by the comprehensive reports concerning foreign markets and foreign business conditions is of the greatest importance, it is not the only assistance consuls furnish. They are always ready to answer personal letters in regard to the best methods of introducing an article into their district, to give specific information as to the tastes, buying power, customs, and usages of the people where they are living, to make suggestions as to packing of goods, the extension of credit, the collection of accounts, and scores of other subjects, though it is urged that those seeking specific information upon any such subject for a particular district first write to the Bureau of Foreign and Domestic Commerce to ascertain if it is already on file, thus avoiding unnecessary duplication of reports on the part of consuls. American commercial travellers invariably receive valuable assistance from the consular officers. They are, when properly accredited, given introductions to leading business men and firms, informed as to trade conditions in their particular lines, and given pointers as to local idiosyncrasies that often result in success where otherwise no headway could have been made.

The information that consuls make it their business to obtain and pass on, either in the reports mentioned or to individual exporters making inquiry, includes such details

as local customs as to the widths of fabrics demanded or preferred by the buying public, the colors and patterns most in favor, the popular grades and brands of various articles, the wrappings that please, the trade-marks that have the strongest appeal, the trend of styles in clothing, fabrics, house furnishings, and many other articles, the climatic effect on certain foodstuffs and on colors and materials, and a thousand other details. The exporter entering a new field thus finds available a vast fund of information that he could obtain otherwise only by long and costly investigation and experience.

Consular Aid to Importers.—While the assistance given by the consular service is more varied in the case of exporters than of importers, there are certain ways in which consular aid is extended to importers. In the first place, the consular reports keep the American importer in constant touch with conditions in foreign markets, so that he is enabled to buy in the most favorable market, and to take advantage of every fluctuation in exchange or other condition that may work to his advantage. Secondly, consuls co-operate with buyers for American importing houses sent to purchase goods in foreign markets. The consul's intimate knowledge of the market conditions of his district often results in the American buyer securing goods on a more favorable basis than would otherwise be the case. Third, consuls endeavor to prevent customs frauds through undervaluations placed on goods shipped to America. At first, this seems to be a disadvantage to the importer, but it often works to his advantage. This is because great quantities of merchandise are exported to the United States by foreign firms, who either send it to their branch establishments in America or consign it to a commission house. In either case, by undervaluing the goods and thus reducing the tariff charges, such firms would be enabled to place their wares on the American market at a lower price than those imported direct by an American firm. In the past this has

been done quite extensively, but consuls are now exercising great care to see that all goods destined for the United States are correctly valued. The requirement as to the taking out of a consular invoice for all goods exceeding \$100 in value to be imported into the United States is an effective means for preventing undervaluations and other customs frauds, though these have not as yet been entirely stamped out.

Publications of the Bureau of Foreign and Domestic Commerce.—In addition to the editing and publishing of the consular reports, the Bureau of Foreign and Domestic Commerce publishes a *Statistical Abstract of the United States*, which contains valuable statistics of the commerce, production, industries, population, finance, currency, and wealth of the nation, as well as a summary of the commerce of principal foreign countries. Another publication is known as *Commerce and Navigation*, which gives a detailed statement of the quantity and value of the exports and imports with the countries to which each article or class of articles was exported and the countries from which each article or class of articles was imported during a five-year period. Trade directories are also published from time to time. The World Trade Directory issued in 1911 gave a complete list of importers in all parts of the world; it is now out of print, but may be consulted at the district offices of the bureau. Other trade directories are now in course of preparation. The district offices of the bureau referred to are at present located in New York, Boston, Chicago, St. Louis, Atlanta, New Orleans, San Francisco, and Seattle. They distribute the publications of the bureau and co-operate with it in the promotion of foreign trade.

Special Agents of the Department of Commerce.—The Bureau of Foreign and Domestic Commerce maintains a staff of commercial attachés, now ten in number, who are stationed in the principal commercial countries, and de-

vote their entire time to the study of commercial and industrial conditions as they affect the trade relations of the United States. These attachés observe the organization of commerce and industry in the respective countries in which they are stationed, and make suggestions and recommendations looking to the adoption of improved methods by American firms that will enable them to compete more successfully with foreign firms. They devote their entire time to the promotion of commerce, having no other duties to perform.

There is also a corps of commercial agents, referred to as "travelling field agents," attached to the bureau. The commercial agent visits certain foreign markets and makes an intensive study of certain conditions along specific lines, such as the requirements of the shoe and leather trade of Brazil or of the cotton-goods market of Latin America. The commercial agent is an expert in some one line, and, confining his investigation to the marketing of that line, he is able to give valuable help to American manufacturers and exporters interested. The "Special Agents" reports form an important series in the publications of the bureau.

Foreign Trade Advisers.—That branch of the work of the State Department concerned with the promotion of foreign trade is carried on through a bureau known as the Foreign Trade Advisers' Bureau or Office. Concessions that are desired from foreign governments by business men or corporations, complaints in regard to tariff discriminations or overcharges, and other matters concerning the interests of Americans in foreign fields, are considered here. The effect of our laws, especially our tariff laws, on the attitude and policy of other governments is studied by the officers of this bureau, which aims to assemble and organize all material available on this and other subjects affecting our foreign trade relations.

Diplomatic Aids to Foreign Trade.—Our ambassadors and ministers to foreign countries frequently, under instruc-

tions from the State Department, make representations, complaints, or protests to foreign governments in regard to the rights and privileges of Americans carrying on business with foreigners, and often obtain valuable concessions or modifications of obnoxious regulations that are of the utmost benefit to our exporters or importers.

The negotiation of commercial treaties with other nations, carried on through diplomatic representatives, has become of the greatest importance to modern commerce. While these may apply to a wide variety of subjects, the effort to obtain mutual tariff concessions between the countries concerned is the sphere of widest application. Such treaties are usually entered into for a period of years, thereby stabilizing conditions, to the benefit of commerce. As an example of trade benefits secured through commercial treaties the preferential tariff agreement now in force between the United States and Brazil may be cited. Through this a 30 per cent reduction from the regular duties is granted by Brazil on flour imported from the United States, and a 20 per cent reduction on pianos, condensed milk, clocks and watches, paints and inks, refrigerators, rubber manufactures, scales, typewriters, varnishes, windmills, corsets, cement, dried fruit, and school and office furniture. These reductions were granted in consideration of the fact that the two principal exports of Brazil, rubber and coffee, found their readiest market in the United States, where they are admitted duty free. As has been pointed out, Germany has made a wide use of such commercial treaties. The next few years will without doubt be marked by a great extension of this principle between trading nations having reciprocal commercial relations.

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CHAPTER XX

THE VALUE OF FOREIGN INVESTMENTS AND OF A MERCHANT MARINE AS EXEMPLIFIED BY THE COMMERCE OF THE UNITED KINGDOM

Position of the United Kingdom in International Trade.—For over a century the United Kingdom, popularly referred to as England, has stood head and shoulders above all other nations in the volume and value of her international trade. In the last normal year before the World War, 1913, her total trade with other nations exceeded \$6,800,000,000. This was nearly one-sixth of the entire trade of the world for that year. It exceeded the trade of her nearest competitor, Germany, by nearly \$2,000,000,000.

It is only since the rise of Germany and the United States to eminence in world trade that the position of England has been seriously threatened. The belief is now somewhat prevalent that the United Kingdom cannot hope to retain much longer the position she has held so successfully for so many decades. The facts upon which this belief is based are that her trade is not increasing proportionally as fast as that of her great commercial rivals, that her imports are increasing faster than her exports, that her pre-eminence in the manufacturing industry is gradually slipping away, and that her dependence upon other countries for the raw materials essential to her manufactures and for the food-stuffs requisite for her population is becoming greater year by year.

While there is food for thought in this view of England's condition, the fact remains that in 1914 England claimed one-sixth of the world's commerce, owned about one-half of the ocean tonnage of the world, was second only to the

United States in the output of her manufacturing industry, underwrote about two-thirds of the marine insurance taken out on ships and cargoes, led all other nations in the ship-building industry, had the largest investment of capital in foreign enterprises, supplied nearly one-fourth of the coal production of the world, and was the undisputed leader in banking and finance.

Causes of Commercial Supremacy.—In seeking an explanation of the supremacy of the United Kingdom in international trade, four great fundamental factors are readily recognized. These are the early development of her merchant marine, which, coupled with her navy, won her a great colonial empire; her leadership in the industry of manufacturing, won in the industrial revolution of the early nineteenth century and retained until nearly the end of that century; her adoption of the free-trade policy at a time when that policy unquestionably fostered the upbuilding of her manufactures and of her commerce; and, lastly, her policy of developing new countries and new markets through the investment of capital in public and private overseas enterprises. Of these, the naval and tariff policy are political, while the building up of a great manufacturing industry and the securing of the capitalistic leadership of the world have been largely the result of individual effort.

We find in England no such organization of industry and commerce as exists in Germany; British trade is free, not only in regard to tariffs, but also in regard to government direction or control. Outside the kingdom the government zealously guards the rights and interests of her citizens, using diplomacy or force, as may be necessary, to secure every protection and every advantage for her traders and her capitalists the world over. Within the kingdom the policy of *laissez-faire* prevails to such an extent that the English system has been characterized as “individualism gone mad.” In late years, however, under

the leadership of David Lloyd George, there has been a movement to bring industry under close government supervision, with the object of improving the conditions of labor and of remedying some of the evils resulting from the industrial system.

The Merchant Marine.—The first factor in England's commercial success is her merchant marine. Her early leadership in the carrying trade of the world, which she won from the Dutch in the second half of the seventeenth century, gave her a tremendous advantage in the quest for world markets that has played such an important part in the history of every modern nation. The methods used in fostering the growth of her merchant marine and the commerce depending upon that marine are thus summarized by Adams in his *European History*:

It is from the time of Cromwell's rule that we may date the beginning of a continuous commercial and colonial policy on the part of the English Government. . . . With him began the measures which long characterized English policy, to defend and develop commerce and the colonies, not as colonies mainly but as feeders of commerce, by acts of Parliament and whenever necessary by war. In 1651 was passed the first Navigation Act, which forbade the importation of goods into any English possession except in English vessels or in the vessels of the country producing the goods. This was aimed directly at the great carrying trade of the Dutch, and was intended to transfer this to English ships. Laws of this kind, successively passed, remained in force until into the nineteenth century.

Such a policy undoubtedly had its effect, but a far more potent influence was the love of the English for the sea. From earliest times they had been a seafaring people, ready enough to follow any enterprise holding out the promise of reward or adventure. Hardly had the discovery of the New World opened up new vistas for commercial conquest before the daring British sea-captains went boldly adventuring into uncharted seas in quest of trade,

and so established regular trade routes and trading-stations before other nations had fully awakened to the possibilities of establishing a permanent and profitable overseas commerce. No seaport was too far distant to be reached by British merchant vessels, no passage was too hazardous to be undertaken by her mariners, who were equalled in modern times only by those of the American colonies, themselves British subjects.

Every advantage that can come to a nation from the possession of a great merchant marine has been England's for over three centuries. These in brief are as follows:

The maintaining of direct trade routes and direct trade relations with all parts of the world, with the consequent stimulation of foreign trade and foreign financing; the earning of great sums of money for performing the carrying service for other nations, and the strengthening of the naval power of the nation by the control of a powerful fleet that may be converted into a naval auxiliary as required.

In the case of England, her merchant marine has been a necessary adjunct in securing and maintaining her great colonial empire. While the attempts made by the mother country to control the commerce of her colonies proved ineffective, and threatened to break up the empire, the possession of colonies did, nevertheless, both directly and indirectly help to build up a great overseas commerce. The promotion of trade between people speaking the same language, having the same traditions, tastes, and customs is easier than between people of great differences in language, tastes, characteristics, and customs. Other things being equal, English emigrants prefer English wares to those of other countries. Then, too, the colonies found it to their advantage to trade with England, because that country offered the best market for the raw materials and foodstuffs they produced in superabundance and supplied those finished manufactures that every new country must import.

The British merchant marine was at all times ready to serve the colonies and all other nations in this exchange of wares. Regular and rapid service has long been maintained between English ports and those of every other nation. England first adopted steam navigation in overseas commerce and established a network of steamship lines that bound the world to her with invisible threads. She thus was able to carry not only her own exports and imports but also a large part of those of other nations. The direct exchange of the surplus products of England for those of other nations has thus been supplemented by a trade of immense volume in the products of other countries. England thus became the great distributing centre for the wares of the nations, which found it convenient to send their surplus products in British ships to London and to take in exchange those other products, be they British or Continental, African or Asiatic, American or Oceanic, which were offered in this great world mart in quantity and variety almost unlimited. It is this that made London for over a century the commercial and financial centre of the world.

Manufacturing.—English commerce has developed side by side with the industry of manufacturing. For over a century England led the world in that industry, finally being overtaken and passed by the United States in the last quarter of the nineteenth century. The tremendous manufacturing industry of the United Kingdom owes its success largely to the fact that this nation was the first to develop the factory system, which resulted from the use of machinery driven by the power of steam. An abundance of coal and iron conveniently placed near the sea greatly aided England in taking the leadership in the industrial revolution resulting from the introduction of steam-power in the early nineteenth century. The position as the greatest manufacturing nation in the world won at that time was retained unchallenged until the greater efficiency of

electric power, combined with new and improved methods of production, worked another industrial revolution. That England has not lost her skill in manufacturing is shown by the fact that in 1914 the output of her manufacturing plants was equalled by that of only two nations, the United States and Germany, and surpassed only by that of the United States. English exports of manufactures exceeded those of any other nation. This has greater significance when it is remembered that the population of the United Kingdom in 1914 was only 45,000,000, while that of Germany was 66,000,000 and that of the United States 98,000,000. It is estimated that the per capita production of manufactures in the United Kingdom was \$200 in that year, that of Germany \$138, and of the United States \$210.

The manufactures in which England has excelled are textiles, especially those of cotton; machinery, including that used in the textile industry; locomotives, iron and steel rails; cutlery; pottery; and leather manufactures. The building of ships has been an industry of prime importance in England from earliest times; since the introduction of ships built of iron and steel England has been able to turn them out more cheaply than they can be built in the United States, though this is probably no longer the case.

The value of English manufactures exported in 1912 was about \$2,000,000,000; that of all other nations was about \$6,000,000,000. That England had not lost all claim to the title of "the workshop of the world" is evidenced by these figures. It is generally agreed, however, that English manufacturing methods have not kept pace with the latest improvements and that there has been greater efficiency, in large-scale production, in both Germany and the United States. Since this is recognized in England itself, and measures are being taken to introduce the improvements necessary, a great decline in English industrial prestige is not probable.

England's Free-Trade Policy.—In analyzing the causes of England's commercial supremacy, due consideration must be given to the effect of her free-trade policy. The repeal of the corn laws, which was the name applied to the tariff laws of the time, was accomplished in 1849. A writer on the subject says: "It was a momentous act in English history. It marks the formal and final recognition that England had grown from an agricultural to an industrial and commercial state. It threw England, as an English economist said, from corn to coal as the staple product of the country. Manufactures and trade thenceforth developed freely. Even the agricultural interest gained in ways which it had not foreseen: the consuming population increased rapidly both in numbers and in purchasing power, and demanded increasing quantities of meat, dairy produce, vegetables, and fruit."

Under free trade the manufacturer has been able to secure the raw materials needed, such as cotton, wool, iron, hides, and lumber, at the lowest possible prices. At the same time foodstuffs to supply the needs of the community have been imported duty free. Since England's home supply of foodstuffs is entirely inadequate, the imposition of duties would impose a burden on the consuming population. The effect of free trade on the English farmer is a mooted question.

The adoption of the free-trade policy had a wonderful influence upon the re-export trade of England. Professor Webster thus describes the effect of free trade upon England's commerce:

By this step also she became the great dock, as it were, where were unloaded, free of charge, the products of all countries, thus leaving her a share of the profits of the world's trade. Not only did foreign merchandise come there for redistribution, but foreign merchants, after unloading there, replenished their cargoes in her markets. She profited also from the sojourn of foreign ships in her ports by supplying them with coal and provisions and by

charges for their repairs. Her banks profited enormously by conducting the financial operations of these foreign merchants.

While there is general agreement as to the beneficial effects of free trade on English commerce and industry in the past, there has been for a number of years a strong feeling in England that changed conditions make a reversal or modification of that policy advisable. While the United Kingdom, pre-eminent in manufacturing, could disregard the competition of the newer manufacturing nations, she had little need of a tariff wall to shut out the manufactures of other nations from competing in her home market. But now that other nations have become active and aggressive competitors of England in the sale of manufactured products and have even invaded England itself with their wares, which they not infrequently sell for less than the cost of production, in order to secure the market, it is argued that England must resort to a protective policy. The practice just referred to of one country "dumping" its surplus products into another country at prices below cost is made possible by the protective system, which maintains prices at home and makes it possible for the manufacturer to sell his surplus product abroad at an absurdly low figure, while his domestic customers make up the deficit. He argues that by so doing he is enabled to carry on production on a large scale and at the same time to get a foothold in the foreign market.

Those who favor the abandonment of the free-trade policy in England have another argument besides the one that a protective tariff is necessary to prevent the ruin of the home market by the practice of dumping. They maintain that since England's great commercial rivals, the United States, Germany, and France, all have protective tariffs, which make it difficult or impossible for English manufacturers to compete in the markets of those nations, the only way in which she can retaliate against discrimina-

tion is to herself adopt that system. Such a trading tariff as Germany has had is the one most favored. Under that tariff, reciprocal trade concessions may be made between nations to the advantage of both. An extension of this idea is the advocacy of an imperial customs' union similar to the German Zollverein, with free trade existing only within the empire, a trading tariff being erected against other countries. Such a system might aid in strengthening English industry, but the effect upon her commercial supremacy would be unfavorable. Economists agree that a nation that counts its international trade as of paramount importance jeopardizes that trade when it deviates from the principle of free trade.

Foreign Investments.—A factor of incalculable influence in England's prestige in international trade has been the readiness of her people, from the capitalist with millions at his command to the humble citizen with the merest mite for investment, to loan their money in foreign lands. It is the newer countries possessing great undeveloped resources that have always been most in need of foreign capital to enable the pioneers of industry to wrest from nature the wealth she has stored up in forest and jungle, mine and plain. This capital England has supplied with lavish hand, and it has seldom failed to yield good returns as an investment. But the direct stimulation to English commerce has been of far greater value than the dividend or interest return.

The first need of such undeveloped regions as now exist in Argentina and other Latin American countries; in Canada, Australia, and South Africa; in Russia and in China, is railroads, which afford the necessary transportation facilities to carry in the machinery and supplies essential to the development of the country and to carry out the products resulting from that development, whether they be the products of the mine, the forest, or the farm. Those investments which have greatly stimulated the sale of English

products have been concerned with the promotion of great public and private development enterprises, such as railroads, power-plants, street-car lines, irrigation systems, harbor improvements, and mining and agricultural activities. In each instance the work of development has created an enormous demand for the construction material essential to the carrying out of the project. In placing the orders it has been quite natural to give preference to English firms. This has in many instances been provided for in the negotiations preceding the loan or investment. A prominent American banker analyzes the situation thus: "English investments in South American railroads means that English-made cars, pulled by English-built locomotives, will run over English-rolled rails; that all purchases of supplies will be made in London; that the roads will be managed by Englishmen, and that the influence of the roads in the country through which they run will be exerted in favor of the advancement of English interests. A permanent market is thus made for English goods which is quite safe from attack."

It is clear that such investments do not take English money out of the country. English capitalists loan foreign industrial leaders the money with which they purchase English goods from English manufacturers. The money remains in the country and the goods go out. It is not the manufacturer but the capitalist who extends the credit to the promoter of new enterprises in foreign lands. The advantage to English industry of such loans is therefore apparent. It must be borne in mind, however, that all loans are not made under such favorable conditions. Instances are not rare in which capital secured in England to promote industry in another country ultimately found its way to a third nation in payment for supplies purchased in the latter country.

The total overseas investments of Englishmen in 1913, according to estimates made by Sir George Paish, the emi-

ment statistician, aggregated £3,715,000,000, or approximately \$18,000,000,000. The investments in the British possessions were estimated at £1,780,000,000, while those in foreign countries approximated £1,935,000,000. English investments in the United States in that year were estimated at £755,000,000 and those in Latin America at £724,000,000.

It is estimated that the investments made by Englishmen in overseas enterprises in the decade between 1900 and 1910 totalled £901,000,000, or about \$4,500,000,000. In the single year of 1913 over £196,000,000 went overseas from England for investment purposes. It is interesting to note the distribution of investments in securities in the United Kingdom in that year.

The following tabulation shows the amount of capital, expressed in million pounds, invested by Englishmen in securities in 1913:

United Kingdom.....	49.2
British possessions.....	98.7
Foreign countries.....	98.0
Total.....	245.9

This table reveals the fact that only 20 per cent of the total was retained in the United Kingdom; 80 per cent went overseas, where 5 and 6 per cent could be realized instead of the 3 and 4 per cent prevailing in England.

The income the English people derived from overseas investments each year, before the war brought about the liquidation of a large part of these investments, approximated \$900,000,000, which paid for over one-fourth of the imports of the United Kingdom. This is one of the reasons why the annual imports of the United Kingdom have exceeded the exports. British overseas investments yielded annually enough to more than pay for surplus imports; English ships engaged in the carrying trade piled up im-

mense earnings, which greatly added to England's position as a creditor nation. The chapter devoted to the subject of the balance of trade goes further into this subject.

Professor William Clarence Webster thus graphically describes the effect of British overseas investments as they existed prior to the World War:

While England has been losing her position as the world's workshop, she has been building up her capitalistic supremacy. Her capital has flowed into her colonies and nearly every country in the world. Consequently, she has become the world's creditor, and wields the power that accompanies capitalistic supremacy. Her capitalists own vast tracts of land and work farms in nearly every country of the world; they also control railroads, manufacturing plants, and mines in many of the most strategic places on every continent. In this way England keeps her cows in Australia, Canada, and Argentina; cultivates her wheat in Manitoba, the United States, and India; grows her cotton in the United States, India, and Egypt; spins it not only at home, but even in India, China, Egypt, and Mexico; makes her machinery in Germany and the United States. Thus, not only her many colonies, but the whole world, has become a part of her domain through the power of her capital.

This is a striking description of England's capitalistic supremacy, but it suggests the other side—the unfavorable side—of foreign investments. The English dairyman naturally objects to England "keeping her cows in Australia, Canada, and Argentina"; he would prefer to have her make it possible for him to keep a larger number at home. The English farmer, while recognizing that part of England's wheat must be cultivated in Manitoba, the United States, and India, knows that much more of it could be cultivated in England if the large estates were broken up and more favorable terms and conditions given the rural worker; the British textile worker who has found employment increasingly scarce in England and wages shamefully low feels that he will soon have to follow British capital to the new countries if much more of England's cotton is to be spun

in other countries; and the worker in iron and steel objects to being thrown out of work because British capitalists prefer to invest their money in industrial plants in other countries rather than in England.

It is generally agreed that England's high position in manufacturing can be retained only by an extensive and thorough reorganization of that industry, beginning with the installation of new machinery and equipment that will enable her plants to compete with those of Germany and the United States. Such a programme involves the investment of vast amounts of capital. The English capitalist must cease to send 80 per cent of his yearly investment out of the kingdom, even if by so doing his income is diminished. England without a great manufacturing industry would lose a large part of its population, of its productive power, of its foreign trade, of its capitalistic and commercial supremacy.

This does not signify that foreign investments are either unwise or unpatriotic; they are, on the contrary, essential to an ordered world development; it simply means that the policy of preferring foreign to home investments, when the latter are sadly needed, is bound to have more or less disastrous effects. The feeling of a portion of the British public is well expressed in this passage, taken from an article published in the *Fortnightly Review* for July, 1914—the month before the war put a sudden quietus on the exodus of English capital: "Overseas in South America and elsewhere magnificent cities are being built up with British capital, even while many of our towns remain a disgrace to civilization. . . . It is a pregnant thought that one year's foreign investing, applied to the power resources of this country, could transfer the whole of our industrial and social life and give such a stimulus to British industry as it has never before received."

Progress in Foreign Trade.—The progress made by the United Kingdom in foreign trade since 1880 is shown in the

following table, which gives the imports and exports in millions of pounds sterling, with approximate equivalents in millions of dollars. The figures are for the general trade, which includes the transit or re-export trade.

Year	Imports		Exports		Total	
1880...	£411.2	\$2,001.2	£286.4	\$1,393.8	£ 697.6	\$3,395.0
1900...	523.0	2,545.5	354.3	1,724.5	877.3	4,270.0
1910...	678.2	3,300.7	534.1	2,599.2	1,212.3	5,899.9
1913...	768.7	3,751.0	634.8	3,089.3	1,403.5	6,840.3

Between 1880 and 1913 the total trade more than doubled, by far the greatest gain occurring after 1900. The imports were uniformly greater than the exports, though the difference between them tended to become less. This difference, as has been explained, was more than offset by the earnings of British ships engaged in the carrying trade and by the interest on foreign investments. The imports show an increase during the entire period of 87 per cent, but it is to be noted that the increase between 1900 and 1913 was only 47 per cent. The exports during this period increased faster than the imports; the percentage increase in exports is nearly 122 per cent. The exports nearly doubled between 1900 and 1913; as a matter of fact they quite doubled between 1899 and 1913.

It is thus clear that the progress of England in her general foreign trade has been tremendous. Let us now consider her special trade, which includes only imports for English consumption and exports of English merchandise. In the following table the imports and exports are given in millions of dollars.

In noting the growth of this trade, we will not consider, for the present, the year 1914, as the commerce for the latter half of that year was thrown out of normal by the outbreak of the World War; neither will we consider the commerce of the war years following. Throughout

Year	Imports	Exports	Total
1880.....	\$1,692.9	\$1,085.5	\$2,778.4
1890.....	1,732.3	1,282.4	3,014.7
1900.....	2,238.0	1,417.0	3,655.0
1910.....	2,795.7	2,094.4	4,890.1
1913.....	3,207.8	2,556.1	5,763.9
1914.....	3,386.1	2,096.1	5,482.1
1915.....	4,154.8	1,871.9	6,026.7
1916.....	4,619.0	2,940.0	7,559.0

the period the changes are striking; between 1880 and 1913 imports nearly doubled in value, while exports increased even greater proportionally, those of 1913 having a value nearly two and one-half times as great as those of 1880. The development on the export side was greater than on the import side. The growth for the period, then, shows that England's sales were increasing faster than her purchases, a condition considered an indication of industrial progress. The period between 1890 and 1900 was marked by a relative decline of exports; as this was the period in which the United Kingdom was using her resources in carrying on the Boer War, the decline is easily accounted for. The condition just noted was reversed in the next decade, when the expansion in imports approximated 25 per cent, while that in exports reached nearly 50 per cent. Again, we see the exports increasing at a more rapid rate than the imports in the years between 1910 and 1913. The fact that England's capitalistic and shipping supremacy has enabled her to buy more than she sells has created the erroneous impression that her imports are increasing faster than her exports, while just the opposite is the case. Finally, it is important to note that the value of British exports in 1913 exceeded the value of commodities exported in 1900 by over \$1,139,000,000, and that the increase in the value of her special trade in that period was \$2,108,000,000, a sum nearly equalling the value of the exports of Germany for the year 1912. While her relative progress has not been

so rapid since 1880 as that of the United States and Germany, her progress has been steady and normal. The United Kingdom had a well-developed and strongly entrenched foreign trade of enormous proportions before either of her pre-war great commercial rivals had secured a foothold in the world's trade, and she has not only held that immense trade, but has steadily increased it as the volume of the world's commerce increased, despite the keenest commercial rivalry on the part of the newer and more aggressive countries.

Imports.—Over one-third of the articles imported by the United Kingdom is foodstuffs; nearly one-third is raw materials for her factories and workshops; the balance includes manufactured articles, notably silks, leather manufactures, woollens, hardware, utensils, machinery, and even cutlery, for which Sheffield has long been noted as leading the world, though that city no longer monopolizes the home market. The leading foodstuffs imported are grain, dairy products, meat, tropical fruits and nuts, sugar, tea, coffee, canned goods, and cocoa. The raw materials imported include raw cotton, iron ore, wool, hides and skins, and lumber.

Exports.—Five items comprise nearly three-quarters of the exports. These are, in the order of their importance, manufactures of cotton, iron and steel manufactures, woollens, coal, and chemicals. The one raw material exported in great quantities is coal, which serves admirably as a return cargo for the many ships bringing raw materials to England. As English imports are much greater in bulk and volume than the exports, coal is an important factor in balancing her carrying trade. In the manufactured articles exported there is a wonderful variety: all kinds of cutlery, hardware, utensils, machinery, crockery, textiles, embroideries, laces, thread, needles, pins, thimbles, and a great multiplicity of other articles for which there is use or desire in any part of the globe.

Direction of Trade.—As the United Kingdom blazed the trail to the most remote regions of the earth in the period of trade expansion following that of exploration and discovery, so she has retained those trade connections established by her merchant pioneers. There are mercantile houses in England that have been for generation after generation controlled and managed by the same family and have carried on a business of great volume with other old-established firms in all parts of the world. Such trade rests on the solid foundation of business integrity, mutual confidence and understanding, and a basic knowledge of the requirements and conditions of foreign markets difficult for a firm fresh in the field to acquire. It is this impregnable position of the British export merchant that has proved the despair of rival merchants of other nations, who are not infrequently astonished to find that even the most convincing of all sales arguments—superior quality at lower price—has failed to budge a customer from his allegiance to the old firm. Undoubtedly, the credit arrangements that have become established between merchant and customer are a factor in the maintenance of business relations. Open accounts are not infrequent, and the extension of credit over a bad season or in case of temporary depression is taken almost as a matter of course. So it is that British trade extends to all nations, even to those of remotest regions where the volume of trade is necessarily limited.

About one-third of the trade of the United Kingdom is with Europe, one-fourth with the colonies, and one-fifth with the United States. The imports and exports of the colonies about balance; from Europe and America England buys in excess of her sales. She was Germany's best customer before the war, just as Germany afforded the best market for England's wares. The value of goods imported into Germany from the United Kingdom in 1912 and also in 1913 was about \$200,000,000; conversely, the value of German goods sold in the United Kingdom.

Germany's sales to the British Isles in 1913 practically

equalled her total sales to all the countries of both North and South America in that year. The United States was second only to Germany in the imports from the United Kingdom; France was the next best customer for British wares. In 1913 merchandise valued at over \$634,300,000 was imported from the United States; in 1915 the value of such imports was \$914,100,000, and this was more than doubled in 1916. Calendar years are here considered, and not our fiscal year ending June 30. The amazing sales made by the United States to England in 1915 and later are of interest, but cannot be used as a basis of comparison because they were so greatly augmented by the war. England normally takes about 20 per cent of her imports from the United States, which constitutes a trade in itself of no mean proportions. Less than 10 per cent of her exports find a market in the United States. In 1913 the value of such exports was \$289,000,000. There was thus a balance in favor of the United States of \$344,700,000. Normally, one-fourth of the exports of the United States are sent to the United Kingdom. The best customers of the United Kingdom have been, in the order named, Germany, the United States, France, British India, Australia, Canada, Argentina, the Netherlands, Russia, Belgium, and New Zealand. The countries from which she buys in greatest quantity have been the United States, Germany, France, British India, Argentina, Russia, Canada, Australia, Belgium, the Netherlands, Denmark, and New Zealand. She buys wheat and raw cotton from the United States, beet-sugar from Germany, tea and wheat and jute from British India, wheat and lumber from Canada, gold from British South Africa and from India, wine and silk from France. Of course these are only the principal foodstuffs and raw materials that have found a market in the United Kingdom from the countries mentioned.

Trade from 1915 to 1920.—While the outbreak of the war occasioned a shock to industry and commerce throughout the world, and caused England and the other nations

engaged to divert their energy and productive power to the one all-important task of perfecting and maintaining the machinery of destruction, even in 1915 and 1916 the commerce of the United Kingdom was not far from normal in volume, though its character was changed, especially in regard to the articles imported. The importation of food-stuffs and war supplies was so enormous as to dwarf that of raw materials for the manufacture of the commodities of peace and also of staple manufactures. Home manufactures did not languish greatly during those years. England had the coal to furnish the power, the ships to bring the raw material from overseas, and the navy to keep open the channels of trade. Even the supply of labor was not inadequate. In 1915 the exports were valued at \$700,000,000 less than those of 1913, notwithstanding the increase in prices, which averaged fully 20 per cent, but in the year 1916 both sales and purchases abroad were increased, the volume of exports being surprisingly near normal.

In the next three years enormous totals were rolled up. The figures for that trade are given herewith, expressed in millions of pounds sterling. The exports include both foreign and domestic products.

Year	Imports	Exports	Total
1913.....	£ 768	£634	£1,403
1917.....	1,065	525	1,590
1918.....	1,319	529	1,848
1919.....	1,632	962	2,594

The outstanding fact in the recent trade is the overwhelming excess of imports. It was this excess that caused the pound sterling to decline until it was worth at times between \$3 and \$3.50 in American money, instead of its par value of \$4.86.

Before the war English imports exceeded exports each

year by about £150,000,000. Interest on foreign investments, shipping credits, and bank commissions more than offset this. But the United Kingdom came out of the war in an entirely different position from that held in 1914. David Lloyd George stated in 1919 that foreign investments aggregating £1,000,000,000 had been sold by Englishmen during the war, while government securities exceeding that sum in value had been placed in foreign hands. While the last item was more than offset by loans made to allied nations, including Russia, neither the principal nor interest on such loans were available. Consequently, the United Kingdom could no longer depend upon invisible exports to balance a huge excess of imports. Reduction of imports and increase of exports became an imperative necessity, just as in the case of Germany. Hence, there has arisen a new interest in the promotion of British exports, an interest manifested by the government as well as by private individuals. Various government commissions are working on the problem, while such associations as the Federation of British Industries, organized in 1916, with a membership of 15,000 manufacturers and exporters representing a capital of \$2,000,000 or more, have entered upon a new and determined campaign to promote the sale of British products abroad.

Another effect of the war has been a drawing together of the British Empire. As an indication of this the Finance Act of 1919 is of the highest importance. This act adopted a preferential reduction of duties in favor of certain empire products, including tea, coffee, sugar, dried fruits, cinema films, clocks, watches, motor-cars, and cycles. It is to be noted that duties placed on many of these articles during the war were retained.

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CHAPTER XXI

ORGANIZATION AND CO-OPERATION IN FOREIGN TRADE AS EXEMPLIFIED BY GERMANY

Foreign Trade Essential to Germany.—The pressure of population has long been felt in Germany. With an area considerably less than that of Texas, the population in 1914 was about 70,000,000. The land is not particularly productive, and the major part of it has been held in large estates and worked by agricultural laborers, thus furnishing subsistence to many less people than would be the case under a system of small individual holdings. In normal times the production of foodstuffs falls far short of the consumption, necessitating a large importation of grain, flour, meat, and other food products.

Under these conditions foreign trade became a vital necessity for the people of Germany. It was only by selling the products of their labor in foreign markets that the requisite foodstuffs could be obtained. It is estimated that less than 25 per cent of the population is engaged in agriculture, and the movement from the rural districts to the urban industrial centres has been increasing year by year. Over two-thirds of the exports of Germany have consisted of manufactured articles, many of them highly wrought, in which the labor involved constituted a large part of their value. Fully one-half of the imports has consisted of raw materials for use in manufacturing, while about one-third of the commodities imported has been food products.

It is the facts just set forth that explain why Germany made such a supreme effort to develop foreign markets. Stubborn persistence, indefatigable energy, stern determination, and concentrated effort marked every step of the

progress Germany made in developing her foreign trade. Her unwavering policy of trade extension at all costs resulted from the conviction that the very existence of Germany as a world power depended upon creating an outlet for her labor through the sale of manufactured goods in the markets of other countries. The only alternative was the division of her large estates into small holdings intensively cultivated, or in a great emigration to other countries offering better opportunities.

Both of these were opposed to the imperial policy, which, on the one hand, catered to the agrarian and capitalistic classes, and, on the other, desired to maintain Germany's position and prestige by means of a rapidly growing population of high efficiency.

Hence the abounding energy of the nation, its genius for organization, its devotion to scientific research, and its willingness to subordinate the individual to the general welfare were used to so co-ordinate and unify industry that it might support the largest possible population by means of manufacturing, and extend its foreign trade to the uttermost limits.

The German System.—The system by which Germany succeeded in building up her foreign trade was as thoroughgoing as it was unique. It was the result of a far-seeing, carefully worked out national plan, in which the strong arm of the government was ever ready to give the needed aid and direction. There was co-operation and co-ordination in German industry and in German foreign trade that existed in no other nation. The government-owned railways and waterways, the government banks, the syndicates or organizations of merchants and manufacturers under government supervision, the thoroughly correlated educational system extending from the elementary grades through the universities—these all worked together to achieve one end, the pre-eminence of Germany in power, position, industry, commerce, and wealth.

The German Government was called paternalistic, because it aimed to influence or control, directly or indirectly, many activities that in this and other nations are left wholly or partly to the individual. This paternalistic character was clearly indicated in the aid the government gave industry and commerce. Vast internal improvements; a great system of state-owned railways and waterways; the best harbor and terminal facilities in the world; a close supervision over manufacturing, commerce, and banking; a government policy of zealously guarding the interests of its manufacturers, merchants, and ship-owners who were competing with those of other nations; a well-defined policy of negotiating commercial treaties with other nations to foster German trade; the maintenance of a great staff of government workers whose function it was to keep in close touch with every foreign market in the world and with every development influencing trade, and to give valuable and specific trade information to business men and corporations; the closest co-operation between government bureaus and chambers of commerce—these are only a few of the methods taken by the imperial government to advance German industry and commerce.

Five Factors in German Organization.—The unification of Germany as it affected the foreign trade of the nation may be understood by considering in some detail the forces that were co-ordinated to produce the results achieved. These may be grouped under the following heads:

1. Education.
2. Government control of railways and waterways.
3. The work of syndicates.
4. The co-operation of banks in industry.
5. The tariff policy.

1. **Education.**—Education in Germany was compulsory, every child being required to attend the elementary

schools for at least eight years. The schools gave practical training, the aim being to educate the child to fill the niche he was designed for, so that he might do his part in serving the state to which he belonged. Obedience, patriotism, and industry were inculcated. Continuation schools were provided for boys and girls who graduated from the elementary schools and went to work. In most of the cities of Germany attendance at these schools was compulsory for boys between fourteen and seventeen.

The effect upon industry of the training given in the continuation schools was unquestionably very great. Greater skill, intelligence, and efficiency in the performance of their daily tasks and a better understanding of the work Germany required of her citizens are directly traceable to the instruction given in these trade schools.

Students intending to study in the universities received their preparation in the gymnasiums. The German universities are state institutions, and under the old régime they took a very definite and important part in the development of the empire. Their influence upon industry and commerce was great. They planned to train for the professions and for the higher class of commercial positions as well as for the civil service; they emphasized the natural sciences and encouraged the application of the knowledge gained through study and research to industry; thus scientific study was adapted to the economic needs of the nation and the universities served as laboratories in which scientific methods were worked out for the benefit of industry.

2. Government Control of Railways and Waterways.—Fully 90 per cent of the railways of Germany were owned and controlled by the state. The one paramount idea in railroad administration in Germany was the promotion of industry and trade through service. The earning of dividends was entirely secondary, though the net income derived by the government from this source in 1911 was \$178,-

000,000. This sum would have been greatly increased had not vast sums been spent in making improvements and extensions. Wherever investigation showed that industry might be stimulated to an appreciable degree by railroad extension, by improved service, or by discrimination in rates, the required action was taken. There was no conflict between the interests of the railroads and those of the shipper, for the very simple reason that the interests were identical. In the management of the railways every effort was made to provide adequate terminal facilities, that kept pace with the industrial needs of each community; sectional favoritism was not apparent, for it was generally recognized that the railways must serve impartially and fairly the whole nation, if the nation was to prosper. The railways were operated in connection with the splendid system of inland waterways that were well developed in Germany. The more bulky raw materials, such as coal, iron ore, lumber, and grain, were transported at very low rates over the inland waterways.

Some of the definite ways in which the transportation facilities were used to aid the exporter were as follows:

(a) Export shipments were accorded lower rates than domestic freight. These rates applied to both small and large shipments. Often an exporter who would otherwise have been unable to compete in foreign markets with the exporters of other nations was thus assisted to build up an extensive and profitable export trade. The authorities did not hesitate to reduce the rates on imported raw materials as well as on manufactures for export when it appeared that the nation's trade could be so extended.

(b) The railways were administered as one system, though they were owned by different states. Shipments were sent over the most direct route and were given advantage of the cheapest rate. When there was congestion at one port, exports were diverted from it and thus delays were avoided.

(c) Railway and waterway tariffs were published which gave the exact rate for transportation of every class of goods from German points to foreign cities. These rate books were made clear and simple so that the exporter had no difficulty in ascertaining the freight on any proposed shipment.

(d) Arrangements were made whereby export shipments might be made from an inland point on a through bill of lading, which relieved the shipper of further trouble. Trans-shipments were made wherever necessary, and all details attended to by the railway officials. It mattered not to what far distant point in Asia or Africa or South America the shipment was destined, if it was sent from a German point by a German carrier, it would be delivered without further trouble to the shipper.

3. **The Work of Syndicates.**—Competing firms in the various manufacturing lines were organized in Germany into syndicates, which practically control production and distribution in their respective lines. Production was apportioned among the member firms by the syndicate; sales arrangements were made by the syndicate, which also fixed the scale of foreign and domestic prices, the rate of interest, the terms of credit, and the wage scale. Member firms were penalized severely for non-observance of the arrangements entered into with the syndicate, and failure to live up to the syndicate contracts would eventually mean the financial ruin of the firm following such a course. The syndicate was organized as an independent company, the members entering into agreements or contracts with it that were binding under the laws.

The advantages claimed for the syndicates in the promotion of foreign trade are that they so organize and regulate industry as to cheapen production, by the prevention of waste, undue competition in foreign fields, and the overlapping of industrial enterprises.

4. The Co-Operation of Banks in Industry.—The banks of Germany have been highly centralized. Elmer Roberts, in an article entitled "German Good-Will Towards Trusts," published in *Scribner's Magazine* for March, 1911, says in speaking of the German industrial system:

Seven Berlin banks form the core of the system. They have shares usually amounting to a paramount interest in about fifty of the large provincial banks, and these in turn are part owners of the smaller institutions of their provinces, so that agreements among the larger banks in Berlin have the effect of decrees upon the twigs, as it were, of the financial tree, and upon the detached undergrowth. . . . The resources of the Berlin group and their dependencies exceed M. 8,000,000,000, or \$2,000,000,000. These details appear necessary to an understanding of the economic unification in Germany, for it is through the fibres of the banking network that the centralization is accomplished. German, unlike American, banks have direct participation in industrial enterprise. The bank that gives credit to a manufacturing company has shares in the company and is represented on the board.

German banks were in the closest relation with the government; the foreign policy of the nation was assisted in every way possible by the banks, which made foreign loans to facilitate German diplomacy, established branch banks in countries with which the government was negotiating commercial treaties designed to foster foreign trade, and in general regulated their policy in accordance with the plans of the government. They were always ready to assist in financing any project for internal improvements that promised to promote German trade, and to extend their aid in the development of colonies and of countries in which German traders were trying to get a foothold. The trade and credit information which they were able to supply their customers, the liberal extension of credit which they made to exporters, the activity of their branches maintained in foreign countries, all had most beneficent influence on the industrial and commercial growth of the nation.

5. **Germany's Bargaining Tariff.**—Germany adopted the protective tariff system in 1879 in response to the demand of her newly established manufacturing plants, which were unable to compete in the home market with the products of those nations, especially the United Kingdom, in which the industry of manufacturing was highly developed. Raw materials for manufactures alone were exempted from the high duties imposed; foodstuffs were subjected to heavy import duties in order to protect the powerful agrarian interests, which included the members of the leading aristocratic families of the nation. In 1901 the duties on foodstuffs and manufactures were increased, so that meat, cereals, flour, machinery, petroleum, and tobacco were all subjected to very high import duties. This increase in duties affected the United Kingdom and the United States more than it did other nations. Since the United States had previously imposed heavy duties on many of the manufactured articles imported from Germany, the retaliation was quite natural.

Germany modified her high protective tariff by a system of commercial treaties with other nations, in which mutual concessions were made, Germany reducing the tariff on specified articles in exchange for reductions or trade concessions she desired. Germany's tariff laws have thus been framed so as to give every advantage possible under a protective system to the industry of the nation. This is especially true of the tariff concessions made in commercial treaties with other nations; each concession has been made only after thorough investigation, and each has invariably resulted in gain to Germany. This trading feature of her tariff policy enabled Germany to secure valuable concessions in Russia and other countries that greatly increased her trade opportunities. Germany imported and must import enormous quantities of such raw materials as raw cotton, hides and skins, copper, iron ore, wool, and textile fibres; she exported millions of dollars worth of manu-

factures. This trade was greatly facilitated by the system of granting reductions of the tariff on raw materials in return for concessions in the duties placed on German manufactures by other nations. It is this system that has convinced many English economists of the wisdom of England's abandoning her free-trade policy for a protective tariff under which reciprocal trade concessions between the United Kingdom and other nations maintaining a protective tariff could be made.

The Growth of Germany's Foreign Trade.—Let us now see what the system, the general features of which have just been outlined, accomplished in the development of Germany's trade with other nations. The value of the imports and exports at different periods is given in the following table, which is based upon statistics compiled by the Bureau of Foreign and Domestic Commerce of the United States. The table is for the special trade, which includes only the imports for consumption and the exports of domestic products. The values are expressed in millions of dollars.

Year	Imports	Exports	Total
1872.....	775	551	1,326
1880.....	670	688	1,358
1890.....	986	792	1,777
1900.....	1,372	1,097	2,469
1910.....	2,126	1,778	3,904
1913.....	2,563	2,403	4,966

Between 1880 and 1913 the foreign trade of Germany increased nearly 266 per cent. As in the case of England, the imports exceeded the exports each year. This difference was offset by the interest on German foreign investments, which were estimated at \$8,000,000,000 in 1913, and by the earnings of her great merchant marine, second in 1914 only to that of the United Kingdom. Changes in the methods of compiling statistics of commerce make an

exact comparison impossible, but in general imports doubled between 1880 and 1900, while the increase in exports was only 60 per cent; between 1900 and 1914 exports increased faster than imports, more than doubling in value.

Imports.—Nearly one-half of the imports of Germany consisted of raw materials, the largest single item imported being raw cotton. Copper, certain grades of iron ore, wool, hides and skins, and textile fibres are other raw materials imported in great quantity. About one-third of the imports have been foodstuffs. Though Germany produces large quantities of wheat, rye, and barley, the production of cereals falls far short of the consumption, with the exception of rye. In normal times one-third of the wheat consumed is imported. Barley, meats, dairy products, eggs, coffee, tea, cocoa, lard, and oleomargarine are other foodstuffs for which Germany has afforded a good market.

Exports.—The greatest manufacturing plants in Germany have been those devoted to the output of iron and steel and their manufactures. Consequently, such products have held first place in her exports. Germany had an abundance of coal and iron ore, which are the basis of this industry. Her coal, however, is of a low grade, and its cost per ton at the mine is considerably greater than in England and about twice as great as in the United States, where the coal lies at or near the surface of the ground. Some of the German coal-mines are over 3,000 feet deep. Cheaper labor costs, cheaper transportation, and the application of scientific methods enabled her to compete in the iron and steel industry with England and the United States. In 1890 the output of pig iron in Germany was 4,500,000 tons; in 1913 it was 19,000,000 tons. This made Germany second of all the nations in the production of pig iron. This explains why her exportation of machinery increased from about \$13,200,000 in 1887 to over \$157,000,000 in 1912.

The manufacture of textiles was next in importance in

Germany. Consequently, the importation of cotton, wool, and raw silk has been very large, and the exportation of the finished fabrics second only to that of the United Kingdom. The value of the cotton, wool, and silk fabrics exported increased from \$65,000,000 in 1887 to \$241,000,000 in 1912.

Other exports of importance are aniline dyes, beet-sugar, copper wire, leather and leather manufactures, surgical instruments, paper manufactures, porcelain, pottery, glassware, hardware, chemical and pharmaceutical products, electrical appliances, coal-tar derivatives (dyes, perfumes, explosives, etc.), and clothing. These were the principal manufactures exported. Coal and coke were the raw materials exported in greatest quantity. In addition to beet-sugar, in the production of which Germany leads the world, rye and potatoes are food products exported prior to 1914.

Direction of Trade.—In 1912 and 1913 the United States was the largest exporter to Germany, while the United Kingdom was Germany's best customer. The British colonies, Russia, Austria-Hungary, France, and Latin America are other countries that have had most extensive trade with Germany. The principal commodities Germany has drawn upon the United States for are such staple food products as wheat, meat, dried fruits, corn, lard, and oleomargarine, and such raw materials as cotton, copper, lumber, tobacco, and mineral oils. Machinery and other manufactures have also been imported from the United States. In exchange for these Germany has sent us aniline dyes, toys, earthenware, pottery, caoutchouc and gutta-percha, gloves and other articles of wearing apparel, wooden manufactures, pictures and picture postal cards. Germany exported over \$100,000,000 worth of toys annually and over \$60,000,000 worth of picture postal cards. We have bought from Germany for the most part highly wrought manufactures in which the labor cost is the highest item, and have given in return raw materials and foodstuffs. In 1913 Ger-

man imports from the United States were valued at \$331,684,000, while her exports to the United States were valued at only \$188,963,000. Germany's trade has not been confined to a few countries. Her salesmen have invaded every market in the world; they invariably spoke the language of the country, were quick to adapt themselves to the conditions of each market, have had authority to grant liberal credit terms, were always prepared to quote c. i. f. prices (which include insurance and freight), and often were able to quote lower prices than those offered by their rivals from other countries. In many lines their manufactures have been of a lower and cheaper grade than those produced by either the United Kingdom or the United States, which accounts for the lower prices quoted. They have taken an infinite amount of pains to supply the market with the kind and quality of goods in demand, have filled small orders with the same care given to large ones, and given expert attention to the packing of the goods. German salesmen and German mercantile establishments successfully established themselves in Chile, Brazil, Argentina, and other Latin American countries, in Asia Minor, Turkey, China, Japan, India, Syria, and in every one of the British colonies.

Success of the German System.—So far as it affected the position of Germany in foreign trade, the commercial system outlined was a success. Its effect upon the political and industrial freedom of the masses, upon the distribution of wealth and privileges among its citizens, and upon the character and ideals of the nation is another question, which need not be considered here. It is generally agreed that such a centralized system is not practicable in the United States or in any country that seeks to develop the individual through democracy. There are, however, certain lessons we can learn from Germany. These, in brief, are as follows:

1. Our educational system could be developed so as

to provide practical and thorough vocational training for every student.

2. Better transportation and terminal facilities could be provided. While our railway mileage exceeds that of any other nation and our equipment is unequalled, the service rendered is still far from satisfactory, and co-operation between the railway and the shipper is little developed. Our inland waterways, with the exception of the Great Lakes, are sadly neglected, with the result that railroad traffic is often so badly congested as to cause long and expensive delays.

3. Our tariff might be so framed as to make the trading feature a powerful influence in trade promotion.

Effects of the Reparation Payments.—The future of Germany's foreign trade is bound to be largely determined by the terms of the peace settlement. Heavy remittances to other countries as reparation payments are provided for in the treaty of peace. The provision requiring the payment of 20,000,000,000 marks by May, 1921, made it possible for Germany to count ships, railroad equipment, machinery, coal, securities, and other commodities on this payment. The balance is to be paid by means of bonds. Other bonds amounting to \$10,000,000,000 figure in the reparation payment, these bonds to draw interest of $2\frac{1}{2}$ per cent up to 1926, the rate to be increased after that date. The interest on the total amount of bonds will exceed \$300,000,000 annually for the years 1921 to 1926. With the increased rate of interest after 1926 and the other reparation payments provided for, the total payments required of Germany each year will greatly exceed \$500,000,000. Some estimates make the sum approach a billion dollars a year. The amount will depend upon the decision of the Reparation Commission.

The method of payment is of highest importance. Payment in gold is impossible. To attempt this would mean

to drain all the gold out of the country long before the reparation claims were paid. Again we are faced with the fact that balances between nations are paid in goods, in services, or in securities, rather than in gold. In this particular case, it is goods that will settle the debts. No longer is Germany a leading nation in the carrying trade. Tourists there may and probably will be, but their expenditures will be insufficient to cover the amount payable each year to other nations. Securities will hardly prove attractive until such time as the great bonded debt is partially paid off. Even stocks and bonds of German business firms will not find any wide market for some time. Goods alone will pay the bill.

This can be done only if German exports exceed German imports regularly throughout the period of reparation. As we have seen, German imports exceeded exports in value in the period preceding the war. A fundamental change is necessary if Germany is to pay the Allies the claims agreed upon. German exports must expand; German imports must contract. In other words, Germany must give to the rest of the world more goods than are received from the rest of the world.

This means extended markets for German goods, with a restricted market in Germany for the goods of other nations. Nothing but a huge annual excess of exports over imports will enable the reparation claims to be met. In order that this may be accomplished, governmental action will be necessary. This action may take the form of a high tariff for the purpose of restricting certain classes of imports, of a system of bounties on exports, of preferential railroad rates on exports more far-reaching than anything ever before attempted, and of a reduction of taxation in the case of firms manufacturing for export.

The restriction of imports can be only along certain lines. Raw materials for use in the manufacturing industries of the nation and essential foodstuffs will be urgently

required. Luxuries are the most obvious articles to be subjected either to a total prohibition or to a duty so high as to practically amount to that. The stimulation of greater food production will be an economic necessity.

The effect upon the trade of the world of the necessity of Germany's exports exceeding her imports is a question of the greatest importance. If the reparation claims are paid, as they must be, in goods, this means a great extension of German markets and of German export trade. Unless the nations of the world are willing to see such a situation develop, they may as well give up all thought of reparation from Germany.

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CHAPTER XXII

THE FOREIGN TRADE OF OTHER NATIONS

France.—A brief review of the foreign trade of other nations, with special reference to their trade with the United States, is now in order. Next to the United Kingdom, the United States, and Germany, the nation having the largest foreign trade is France. Normally, France is our fourth best customer, ranking next to Canada in the value of the commodities obtained from us. In 1915 and 1916 the war imports of this nation rose so far above normal as to place her second only to the United Kingdom in our list of customers. Ordinarily, France buys about 11 per cent of her imports from us and sells 6.5 per cent of her exports to us. Our sales to France exceed our purchases by some \$20,000,000 annually.

The fact that France has been passed in recent times in foreign trade by both Germany and the United States does not mean that that nation is becoming either impoverished or decadent. France, keenly appraising the situation, finds it undesirable to make the strenuous efforts to promote foreign commerce that have placed Germany in the front rank in the trade of the world. France enjoys the position of being more nearly self-sufficient than any other European nation; consequently, foreign trade is of secondary and not primary importance to her. With an area considerably smaller than Texas, France produces nearly half as much wheat each year as the whole United States—enough to just about supply her needs. The land is held in small individual holdings, and is cultivated with care by the owner and his family. The average farm comprises twenty acres. There is no firmly entrenched agrarian class, con-

trolling a large part of the agricultural area, as in Germany, and so agriculture is encouraged. Sugar-beets, potatoes, vegetables, olives, nuts, and fruits are other food products, in addition to the cereals, produced on the well-tilled acres of France. Sheep and cattle are also raised in large enough quantities to satisfy the home market.

France ranks fourth in manufacturing as she does in commerce. But in the manufactures which predominate in the foreign trade of the era—those resulting from the large-scale production of enormous quantities of standardized goods—France is not a leader.

Coal and iron, which are the basis of manufacture dependent upon high-power machinery, are found in northern and central France, but not in sufficient quantity to prevent the importation of both of these basic manufacturing commodities. With the reacquisition of Alsace-Lorraine, the coal and iron supply of France was greatly augmented. A great impetus was thus given to the manufacturer of iron and steel products. The two leading manufacturing industries are wine-making and silk manufacture, both of which depend upon home agriculture for their raw product. Excellent clay for the making of porcelain is available, and French porcelains form an important export item. French silks and velvets are the best in the world. French laces and embroideries, ribbons and veilings, gowns and millinery, lingerie and trimmings find a market in the fashion centres of the world. France not only manufactures the most beautiful materials for wearing apparel, but her artistic designers and dressmakers make these up into garments that sell at unbelievably high prices to the fashionable world that is captivated by their style and originality. Her skilled workers thus use the taste and artistic touch for which they have long been famous to create a commerce that is highly profitable and that is peculiarly their own. This is true in regard to works of art, porcelain, bric-à-brac, perfumery, and fine wines, as well as to wearing apparel.

France thus supplies the luxuries rather than the utilities of commerce, and stands somewhat aloof from the industrial and commercial tendencies of the age.

The United States imports from France all of the typical manufactures just enumerated. Our exports to her consist of raw cotton, copper, petroleum, machinery, tools, and hardware. While our sales exceed our purchases by about \$20,000,000 annually, this is much more than offset by the expenditures in France of American tourists, art students, and others living there and drawing their income from the United States. It is estimated that in normal times over \$100,000,000, in the form of letters of credit, checks, and other negotiable paper, passes from the United States each year in payment of these expenses. Again we see how France, by catering to the artistic side of humanity, adds to her wealth and prosperity. By fostering art and the refinements of life she has made Paris the mecca of the lover of the beautiful; since Mahomet comes to the mountain, the mountain does not need to go to Mahomet.

Italy.—Our imports from Italy amount to about \$56,000,000 annually, our exports to \$75,000,000. Raw cotton constitutes about one-half of our Italian exports. Grain, tobacco, lumber, naval stores, mineral and vegetable oils, copper, and machinery are other articles we send to Italy. Italy has sent us silks, tropical fruits, olives and olive-oil, perfumery and art works. Our exports to Italy were greatly augmented by the World War, amounting in 1915 to \$185,000,000, which made that nation our fifth best customer. It is thought that our permanent trade with that country will be of greater volume in the future, because trade connections have been established and American goods introduced to merchants and consumers who will demand them hereafter. Italy requires more of our raw materials than of our manufactures, for, though all of her coal and most of her iron have been imported (mostly from Eng-

land), she has developed a manufacturing industry of importance. As this industry expands, it will create a greater demand for machinery and equipment and raw materials from the United States. Italy, like France, acquired by the terms of the peace settlement territory containing valuable coal and iron deposits.

The Netherlands.—The Netherlands usually rank as our fifth best customer, which shows that this tiny nation has maintained in a high degree the commercial importance it won in the seventeenth century. Without coal, iron, or water-power, large-scale manufacturing has been handicapped; with a population of 466 persons to the square mile, commerce has been necessary. Therefore, it has developed a transit trade of immense proportions, the value of the merchandise bought and re-exported approximating \$1,000,000,000 each year. Its position combined with its splendid waterways affording cheap transportation facilities are factors of the greatest importance in the vast trade handled. Though it is a commercial rather than an industrial nation, its agricultural and manufacturing output is large. The exports are bulbs, nursery stock, seeds, dairy products, and linen and cotton manufactures. From the colonies in the East and West Indies and in South America, the Netherlands obtain great quantities of valuable commodities, which are sent there to be marketed. These re-exports include spices, coffee, chocolate, and other tropical products. Our imports from the Netherlands amount to about \$35,000,000 annually, while our exports are from three to four times as large as the imports. They include raw cotton, cereals, iron and steel manufactures, and petroleum, which are our staple articles finding a ready market in every European country.

Belgium.—Before she was devastated by the hosts of war, Belgium held a high rank as an industrial and commercial nation. In the per capita output of her great manufacturing plants she ranked second only to the United Kingdom;

in the value and volume of her commerce she stood sixth among the nations of the world. Added to the imports for consumption and the domestic exports was a tremendous transit trade, approximating \$1,000,000,000 each year. This small country has the extensive coal and iron deposits essential to large-scale manufacturing; her capitalists are progressive, her workmen skilled and industrious, and her merchants clear-sighted and aggressive. These factors all combined to make Belgium successful in the markets of the world, thus insuring her prosperity at home. Her manufactures that have entered international trade are iron and steel products, including machinery, hardware, structural iron and steel; woollen and cotton textiles, yarns, carpets, lace, and glass manufactures.

In the low and fertile plains of the north and west the intensively cultivated farms produce wheat, rye, sugar-beets, beans, potatoes, flax, and hops. But over 40 per cent of the food comes from other countries. From the United States Belgium has imported grain, meat, and manufactures. To us she has exported textiles, carpets and rugs, lace, and other manufactures. We have also purchased most of our diamonds from this little hive of industry, as her diamond merchants have long practically controlled that trade, and her diamond-cutters are the most skilled in the world. The skill, energy, industry, thrift, and courage of this nation alike insure her future in the markets of the world.

Spain and Portugal.—The nations of the Iberian Peninsula are unlike the other European countries considered, in that manufacturing is little developed, despite the fact that there is an abundance of coal and iron available. Their commerce is likewise small, though there are signs of a general industrial development for the future. The products Spain sends us are cork, wines, raisins, nuts, and fruits. Our products finding a market are raw cotton for the factories of Barcelona, cereals, and manufactures.

Russia.—This nation with its heterogeneous population and vast area stands next to Spain as a buyer of our goods, her direct purchases amounting ordinarily to about \$30,000,000. Other of our products reach Russia through intermediaries, but it is impossible to estimate the amount of such re-export trade. Russia has rich undeveloped resources of incalculable value; she possesses all the minerals and basic materials necessary for the building up of an immense manufacturing industry, but as yet these lie dormant. Her trade has been dominated by Germany in the past, with the United Kingdom and France in active competition. She has imported many commodities from other countries that we may well supply in increasing quantities in the future. Some of these are pig-iron manufactures, metal-working machinery, dynamos and electric motors, electrical appliances, motor cars and trucks, musical instruments, paper manufactures and chemicals. The commodities we have sold to her have included raw cotton, agricultural machinery, sewing-machines, and paper manufactures. Russia exports many of the products that we seek in foreign markets, such as flax, hemp, hides, skins, and bristles. Other of her exports are wheat, petroleum, timber, and dairy products.

Other European Countries.—We have considered in brief our trade with the principal European nations having extensive commercial relations with us. Of those remaining, the Scandinavian peninsula may be briefly considered. Norway has large shipping interests and a profitable carrying trade. The trade of the peninsula is mostly with the United Kingdom and Germany. Both countries export wood-pulp, dairy products, and meats and fish. Denmark is similar to these countries in many respects. Dairy products are exported in astonishing quantities, when the size of the country is considered. Our exports to these countries are grain and grain products and manufactures.

The trade of Austria-Hungary has been mostly with

Germany and the Balkan states. Austrian manufactures are important, while Hungary is almost entirely given over to agriculture. Grain, meat, dairy products, and wine are exported to other European countries, while Bohemian glass, porcelains, and metal wares come to the United States. Our exports are raw cotton, machinery, hardware, and tools.

Canada.—Our trade with both North and South America is developing rapidly, and is looked upon as holding wonderful possibilities for the future. Of all the countries of these two great continents, Canada has by far the largest foreign trade. Next to the United Kingdom, our northern neighbor has been our best customer, buying about as extensively from us as has Germany. There are several distinct advantages in our trade with Canada. In the first place, proximity simplifies the trade between the two countries; it is not at all difficult for our exporters to ascertain the needs of the Canadian market and to cater to those needs; on the other hand, we can obtain from Canada without trouble or delay those commodities of which that country produces a surplus and of which we stand in need. Besides having the advantage of proximity, there is another that arises out of the difference in the industrial conditions of the two countries. In the United States manufacturing is a highly developed industry; in Canada it is only in its infancy. Consequently, Canada imports the very articles that we are seeking a market for. These include iron and steel products, such as machinery, tools, hardware, and structural iron and steel; textiles of cotton, wool, and silk; wearing apparel, such as clothing, hats, gloves, and knit goods; and house furnishings. The coarser textiles, much farm machinery, leather and wooden manufactures, are manufactured there, but it will be some years before Canada ceases to be an importer of great quantities of manufactured articles. Her exports are food products, such as grain, cattle, fish, and dairy products;

raw materials, notably timber, wood-pulp, copper, nickel, asbestos, silver, and gold; and some manufactured articles. We take large quantities of timber, wood-pulp, and metals from Canada, and supply her with anthracite coal, cotton, and with the products of our semitropical States, including oranges, lemons, and walnuts. In the immense quantity of manufactured articles which we send to Canada are included all the manufactures mentioned among her imports. We are Canada's best customer, and she is one of our best markets. With reciprocity established between the two countries, the trade would increase to their mutual advantage.

Mexico.—A country possessing both temperate and tropical regions of great productive possibilities, the richest silver-mines of any country in the world, with vast wealth in other minerals, wonderful forests of rare woods such as mahogany and rosewood, and broad plains peculiarly well adapted to stock-raising, holds great promise of future development, awaiting only the time when the people may become united in the establishment of a government founded on principles that will insure its permanency and stability. Mexico's exports have greatly exceeded her imports in value, amounting in 1913 to nearly \$130,000,000. The amount of foreign capital invested there is very large, and in normal times the interest on this is so great as to draw freely on the products of the country in payment. Mexico needs more railways and more capital to develop its immense resources, but these cannot be supplied until internal dissensions are finally and permanently settled. Very little machine manufacturing is carried on; hence, the market for such goods has possibilities. The purchasing power of most of the population is low, and can be increased only by the development of the country. At present, the greater part of the trade of the country is with the United States, which affords a market for nearly all of the exports and supplies over half of the imports.

The exports are silver, gold, copper, lead, henequin fibres, hides, petroleum, cattle, tropical woods, coffee, vanilla beans, and tobacco. The imports are machinery, iron and steel, coal, cotton and woollen textiles, and some raw cotton. Mexico uses large quantities of cotton manufactures, but has purchased most of these from the United Kingdom, because, it is claimed, the English manufacturers take special pains to cater to the taste of their Mexican customers, supplying the gaudy colors and fantastic patterns desired.

Central America.—Included in Central America are the republics of Guatemala, Costa Rica, Nicaragua, Honduras, Salvador, and Panama, and the British possession known as British Honduras. The inhabited portion consists for the most part of a narrow strip of plain bordering the Pacific. All of these countries are rich in such tropical products as coffee, rubber, tobacco, indigo, sugar, rice, bananas, cocoa, mahogany and other cabinet woods. Many large banana plantations have been developed by American capital, and regular steamship service is afforded to Atlantic and Gulf ports, as well as to Pacific ports. The Panama Canal is being used to some extent for shipments from the west coast. As these countries develop they are bound to afford better and better markets for American manufactures. The greater part of their foreign trade is now with the United States.

The West Indies.—Cuba and Porto Rico are the most important of these islands, and both trade extensively with the United States. Cuba produces more cane-sugar than any other country in the world, and most of it comes to the United States. Tobacco, tropical fruits, and iron ore are also exported. Cuba imports meats, cereals, and manufactures.

Porto Rico belongs to the United States, and most of its trade is with the United States. It resembles Cuba in both imports and exports.

South America.—More interest is being displayed in our trade with the South American republics than with any other countries in the world. This despite the fact that only about 12 per cent of our imports come from those republics and that less than 6 per cent of our exports find a market there. But our trade with these countries is peculiarly important, because they supply us with a large part of those tropical products that we must import, and because they afford a market for those manufactures that we are desirous of placing in increasing quantity in foreign countries. It is said that north and south trade, rather than east and west trade, is bound to prevail in the future, because countries differing greatly in latitude are naturally complementary in products—such trade is, therefore, based on natural laws. The United States Government and the Pan-American Union are constantly issuing valuable booklets and other literature setting forth in detail the resources, industries, and trade possibilities of the different countries of South America. Consequently only a brief review of our trade with the more important republics will be given here.

Argentina has the largest foreign trade of any of the republics. Its products include those of both temperate and tropical regions, though its exports are mostly from the temperate plains. It is first of all countries in the exportation of frozen meats and second in exports of wool. It also produces a surplus of wheat, corn, hides and skins, and sugar. The United Kingdom has taken about two-thirds of Argentina's exports, and has supplied nearly one-third of the imports. Germany, the United States, and France have also developed large trade with Argentina. Our trade has not been reciprocal, our exports greatly exceeding our imports in value. This is due to the nature of Argentina's exports, which, with the exception of hides and skins and sugar, are similar to our own. Buenos Aires is the chief port. The imports are machinery and other manufactures.

Brazil is the largest country of South America, but it has not developed as rapidly as Argentina. One-third of Brazil's exports consist of coffee; another third of rubber; tobacco, cotton, and sugar are also exported. The United States affords by far the best market for Brazilian products, but our exports to that country have been exceeded by the United Kingdom and Germany. Wheat, flour, machinery, textiles, petroleum, and a wide variety of manufactured articles are imported. Rio de Janeiro is the great seaport, though coffee is exported from Santos and rubber from Para.

Chile owes a large share of its commercial importance to its seemingly inexhaustible supply of nitrate of soda, used as a fertilizer. Most of the nitrates are shipped from Iquique, though Valparaiso is the most important port. Copper, hides and skins, wool, and wheat are also exported. The imports are machinery, tools, structural iron and steel, textiles, and other manufactures—all articles that might be supplied in greater quantity by the United States.

Venezuela exports coffee, cocoa, hides and skins, and cabinet woods, which find an excellent market in the United States. We find in her imports the same list repeated as in the case of the other undeveloped countries—machinery, tools, textiles, and other manufactures.

Colombia's exports resemble those of Venezuela. Panama hats are also manufactured for foreign markets in great quantities. Gold is mined in great quantities and is sent to the United States and England. There is a good market for mining machinery, for silver, lead, and copper are also produced. Hides, bananas, coffee, vegetable ivory, and rubber are exported to the United States, and machinery, drugs, and medicines, textiles, various metals, and food products are imported. Over one-half of the entire trade is with the United States.

Peru exports silver, copper, sugar, coffee, wool, hides, and cocoa. Wheat, petroleum, and manufactures are imports from the United States.

Australia.—This great continent with an area nearly as large as that of continental United States and a population of less than 5,000,000, is in the first stages of what promises to be a rapid development. Its isolation has held it back, for it has been out of the stream of immigration that usually pours into new countries offering opportunities for the laborer and small farmer. With improved ocean transportation, which it is now eagerly seeking, this richly endowed country may be expected to forge ahead at a wonderful rate. Its foreign trade at present aggregates about \$750,000,000, with imports in excess of exports, due to the importation of machinery and equipment for development projects. Australia leads the world in the production of wool, which is its leading export. Other commodities produced there which we find it profitable to import are hides and skins, tin ingots, pearl-shell, and gold and silver. Meats and dairy products, cocoanuts, and copra, which is the dried meat of the cocoanut yielding a vegetable oil, are other exports. Only about 3 per cent of Australia's exports have come to the United States, the United Kingdom and Germany being her best markets. On the other hand, Australia has been a good customer for our wares, fully 14 per cent of her imports having been purchased here, at a total cost of between \$40,000,000 and \$50,000,000 annually. The nature of the goods purchased by Australia adds materially to the value of the trade with that country, as they consist almost entirely of the manufactures which we, in common with other manufacturing nations, are seeking to market. The leading articles exported to Australia are machinery, electrical appliances, surgical instruments, drugs, chemicals and medicines, cameras, magic lanterns, musical instruments, motor vehicles, rubber and leather manufactures, paints and varnishes, glassware, chinaware, clocks, jewelry, clothing, textiles, and firearms.

A hindrance to the development of reciprocal trade rela-

tions with Australia has been that the ships leaving our Atlantic ports for that continent have not returned directly to the United States, but to Europe and then here. Consequently, we have not purchased as large a proportion of Australian products as we might if they were brought here directly. With direct lines plying to and from Australia and the Atlantic ports, by way of the Panama Canal, a permanent trade advantageous to both countries could be developed. The direct steamship service from the Pacific coast to Sydney has greatly stimulated our trade with Australia.

New Zealand.—This country, with a population of only a million, has a foreign trade of \$96 per capita, about equally divided between imports and exports. The products are similar to those of Australia, and her imports likewise consist largely of manufactures. Her imports from the United States amount to about \$9,000,000 annually. As in the case of other new countries, this trade may be expected to increase greatly as the country develops.

Philippine Islands.—There are in all about 2,000 islands in the Philippine group. They are mostly undeveloped tropical forest regions, with promise for future development. At present the principal exports are manila hemp, copra and cocoanuts, tobacco, sugar, and coffee. We take about 37 per cent of the exports and supply 45 per cent of the imports of the islands. The latter consist of manufactures in a wide variety. Our exports to the Philippines in 1916 were nearly as valuable as those we sent to Japan; they were valued at about \$50,000,000, or double those of the previous calendar year. Our trade with the islands has increased tenfold since 1900.

Hawaiian Islands.—This small island group, with an area of only 6,449 miles, produces on its great plantations half a billion tons of cane-sugar each year, practically all of which is brought to the United States, duty free, and refined here. Rice, coffee, pineapples, and bananas are

other products we obtain from Hawaii. In return we send lumber and manufactured articles of every description.

Japan.—The rapid development of this country has been one of the marvels of the last fifty years. Without iron, coal, wool, leather, rubber, or cotton in any considerable quantity, Japan has succeeded in developing a great manufacturing industry and an extensive commerce. We obtain from Japan tea, camphor, silk, porcelain, lacquerware, earthenware, and various ornamental manufactures of brass and other metals. Japan takes from us considerable quantities of raw cotton, electric machinery and other equipment for her factories, tools, manufactured articles of various kinds, petroleum, and flour. We are Japan's best customer, but we supply her with only about one-sixth of her imports. Japan has developed in recent years a great ship-building industry and has built up a merchant marine as well as a navy of importance. Over half of the foreign trade of the country passes through the port of Yokohama, which is on the direct route of all steamship-lines plying from the west coast of North America to the Orient. The total foreign trade of Japan was in 1913 about \$678,000,000. In 1918 the exports alone exceeded \$881,000,000. Of these, 30 per cent went to the United States and only 6 per cent to Europe.

China.—China, with its enormous population of low-purchasing power, its meagre transportation facilities, its distinctive civilization, and its great area stretching from the cold interior plateaus to the southern subtropical coastal regions, presents problems to the Western commercial world that only time can solve. The country is gradually assimilating Western civilization and introducing modern customs that may result in a complete industrial revolution there. It has vast agricultural and mineral resources, possesses the coal and iron essential to modern industry, and its people have proved their ability to imitate the methods of the newer nations. Manufacturing in a modern

sense has gained a foothold in China recently, and it now seems probable that the people will gradually abandon their hard attempt to wrest a living from the soil and turn to manufacturing for other nations as a means of livelihood. If this should happen, the result of such competition from the low-paid labor of the Orient might prove disastrous to other nations maintaining a higher standard of living. At present the dense population is most'y engaged in agriculture, and silk, tea, beans and bean-cake, raw cotton, hides and skins (mostly of goats), straw braids and matting are exported, along with unique carvings and other distinctive manufactures. The imports are cotton goods, rice, sugar, petroleum, vegetable oils, machinery, and manufactured articles of different kinds. Japan is rapidly extending her trade and her influence in China, but as the country develops it will afford an excellent market for structural iron and steel, electrical machinery and appliances, and other development equipment. Blast-furnaces, cotton-mills, and silk-manufacturing plants have recently been established in China with the aid of American and British capital.

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QUESTIONS THAT MAY BE ANSWERED FROM THIS TEXT

CHAPTER I

1. What is meant by the statement, "Commerce is the hand-
maiden of civilization"?
2. What are some of the methods used to control and direct
commerce?
3. What great manufacturing nations are largely dependent
upon imported raw materials?
4. What has been the effect of cheap transportation upon the
character of the world's commerce?
5. What has steam done for the inland farmers of the United
States?
6. What are some of the causes of the stupendous expansion
of international trade since the opening of the twentieth century?
7. What four countries led in foreign trade in 1913? Why is
that date designated instead of a later one?
8. To what extent is it true that a large foreign trade is an in-
dication of national prosperity?
9. Discuss the statement: "It may easily be shown that the
gain to a country is in its imports."
10. Who was Adam Smith? What does he say of the value
of foreign trade to a nation?
11. How is a territorial division of labor made possible by for-
eign trade?
12. What is meant by the self-sufficiency of France in regard
to foreign trade?

CHAPTER II

1. What were the principal products of the South during the
colonial period and for what class of products were they traded?
2. What Atlantic port developed an early commerce with Eng-
land and the West Indies?
3. What part did New England take in colonial commerce?
4. To what influence is the revival of commerce after the Revo-
lution attributed?

5. What was the effect of the development of the Middle West on our foreign trade between 1850 and 1860?
6. What was the outstanding economic characteristic of the development that followed the Civil War?
7. What two striking changes in our foreign trade took place between 1876 and 1900?
8. Why does the change to a favorable balance of trade mark a new era?
9. What class of products showed the most striking increase in our export trade in the first fourteen years of the twentieth century?
10. What is meant by looking upon foreign markets as primary markets?
11. What was the most significant change in our import trade in the period of 1900-1914?
12. What has been the comparative ratio of increase of our foreign trade to our population?
13. What great change has the increase of our export trade in manufactures brought about in our whole attitude toward foreign trade?

CHAPTER III

1. How did the foreign trade of the United States for the years 1917-1918 compare with that for the years 1913 and 1914?
2. What two factors are to be considered in estimating our war trade?
3. Tabulate the value of our exports in 1914 and 1917 to Europe, to North American countries, to South America, and to Asia.
4. What were the principal articles of export and of import during the war period?
5. What countries are included under the general name of Latin America?
6. Why is our interest in trade with Latin America much keener than the total value of that trade might seem to warrant?
7. What is meant by our re-export trade, and why is it important?
8. Discuss the ability of the manufacturers of the United States to compete under normal conditions with those of other nations.
9. What is meant by the balance of trade in our favor? Is a "favorable" balance of trade always of advantage to a country?
10. What is the condition of exchange between England and the United States at the present time? What are the quotations to be found? When the pound sterling is at a discount in New York how are our exports to England affected?

11. What four ways are there by which nations buying of us may pay for their purchases? What is the most important way?

12. Discuss fully the four suggestions given on page 41 for maintaining our export trade with European countries.

13. Why is it highly important to keep in mind the fact that foreign trade means exchange of goods between the nations participating? How does the total gold in circulation in the world compare with the international trade for a single year?

CHAPTER IV

1. Name in the order of their importance our eight leading exports.

2. What four countries produce the bulk of the world's cotton? Name in the order of importance.

3. What relation to our balance of trade did cotton bear prior to the war? What imports may cotton be said to have paid for?

4. What tendency is noted in regard to cotton manufactures? How are raw cotton exports affected by this?

5. What relation to our expanding export trade does iron and steel manufactures bear? Name some of these.

6. What change has taken place in the export of meat products?

7. Discuss the subject of wheat production and exportation in the United States.

8. What influence has the improvement of the internal-combustion engine had upon our export trade in petroleum?

9. Name the five grand divisions in the order of importance as to the value of exports taken from the United States in 1914.

10. What is the value of our South American trade as compared to our trade with our North American customers, Canada and Mexico?

11. Name our twenty best customers in the order of their importance.

12. Name ten leading commodities of which the United States produces 20 per cent or more of the world supply.

CHAPTER V

1. Name four classes of products imported by the United States.

2. What explanation can you give of the fact that certain articles appear in our lists of both exports and imports?

3. From what continent did we regularly buy about one-half of our imports between 1900 and 1914?

QUESTIONS

4. Name the principal products usually supplied by Canada, Cuba, and Mexico.
5. Give sources of coffee, sugar, and rubber.
6. What are the principal products received from Asia and Oceania, including Australia?
7. How do our sales to South America compare with our purchases?
8. Give three reasons for the condition of our South American trade.
9. Mention four steps that may be taken to increase our trade with Latin America.
10. Explain how Latin American trade was diverted to England before the war.
11. Explain fully why we are desirous of developing our trade with Latin-American countries.

CHAPTER VI

1. Distinguish fully between direct and indirect exporting.
2. Outline in detail the sales organization of a typical large corporation.
3. Give steps in the conducting of a preliminary investigation of foreign markets.
4. What are some of the facts disclosed by a trade report?
5. Give the steps in developing an export sales organization.
6. Describe the export sales organization of the Standard Oil Company.
7. Show to what extent the United States Steel Corporation influenced the development of our foreign trade.
8. What five sales methods are employed in direct exporting?
9. Describe in detail the advantages of a branch office in a foreign country as compared with a foreign agency.
10. What advertising methods have been found most effective in foreign trade?
11. Discuss the place occupied by International Parcel Post in foreign commerce.
12. What is the Webb-Pomerene Act, and how does it benefit American exporters?

CHAPTER VII

1. What five classes of commission merchants in international trade were distinguished in the seventeenth century?
2. What are the functions of a commission house in foreign trade at the present time?

3. Distinguish three types of commission houses now in operation. Which one is not strictly a commission house?
4. What are the advantages and disadvantages of selling through an export house?
5. What are some of the ways in which a manufacturer may co-operate with a commission house in the promotion of sales?
6. What part have commission houses taken in the marketing abroad of staple products such as cotton and wheat?
7. Describe in detail the operation of the commission house in Latin American trade. Mention some of the methods used by commission houses to promote trade.

CHAPTER VIII

1. In what ways do the methods used in exporting raw materials and foodstuffs differ from those employed in the exportation of manufactures?
2. Outline in detail the sale of cotton by each of the following producers:
 - (a) By the small farmer who depends upon credit;
 - (b) By the independent farmer;
 - (c) By the corporations owning large plantations.
3. What two tendencies in the marketing of cotton promise better returns for the grower?
4. How does the actual business of a cotton exchange differ from the functions of such an exchange as outlined in its charter? Discuss the good and evil results of such exchanges.
5. Explain the meaning of "hedging" and its advantages to men actually engaged in the cotton trade.
6. Mention three methods by which the Western farmer may dispose of his wheat.
7. Through what three channels does export wheat flow? How does the handling of Pacific coast wheat differ from that used in connection with other wheat?
8. Describe in detail the methods of marketing cattle that prevail in the United States. In what form do we export most of our cattle?
9. What three agencies are concerned in the exportation of our surplus tobacco? How large is this surplus?
10. Describe the sale of tobacco at a tobacco auction. What other farm products are largely sold through similar auctions?

CHAPTER IX

1. What six documents are generally required in making an export shipment? Where may information be had as to the exact rules governing shipments to each foreign country?
2. Follow in exact detail the filling and shipment of an export order from the time it is received until it is on board ship.
3. What information is given on the heading of an export invoice? in the body of the invoice? Why is it necessary to give specific information as to the exact nature of each article or package?
4. Why is a knowledge of the customs regulations of the country of destination a necessary equipment of an expert shipping-clerk?
5. What is a shipping permit? How is it obtained? What information does it give in regard to the shipment?
6. What is a dock receipt?
7. What countries require a consular invoice? What information does such an invoice give? In what language is such an invoice written?
8. Where can specific information as to the exact requirements for a consular invoice to any specified country be obtained?
9. What information is given on the shipper's export declaration? Why is it necessary to make such a declaration? Who certifies it?
10. What is a railroad bill of lading? What three distinct uses has a bill of lading? What information is given on it?
11. How does a steamship bill of lading differ from a railroad bill of lading? Explain precisely what steamship freight covers. What extra charges must be provided for?
12. What provision is taken in order that the title to an export shipment may rest with the holder of the bill of lading? Why? Note exceptions.
13. How many indorsed copies of the bill of lading¹ are made? Why is the number of such copies that have been made stated on the face of the document?
14. What shipping documents must be in the hands of the consignee before he can gain possession of the goods? Why is it highly important for the documents to arrive as early as the goods?
15. What are the duties of the shipper's agent at the port of shipment?
16. What services do freight-forwarding agencies render?

17. Mention the three ways in which a bank may handle the documents of an export shipment.
18. What is the function of manufacturers' export agents? What other similar agencies can you mention?

CHAPTER X

1. What are the most important import regulations of the United States Government? What is the purpose of these laws and regulations?
2. What advantages are afforded importers by the government-bonded warehouses? What is a "drawback"?
3. What are the three import documents? Describe each.
4. How may an American manufacturer convert his factory into a bonded warehouse? What is the advantage of this?
5. How are imports appraised? What method is used to facilitate the removal of a large import order in case the importer has immediate need of the goods?
6. What percentage of our imports consists of wholly or partly manufactured articles? Name some of these.
7. Outline the commercial channels through which manufactured goods come into possession of the American importer.
8. What part do commission houses play in the importation of manufactured goods into the United States?
9. What great merchandise fairs held in other countries draw buyers from the United States?

CHAPTER XI

1. What are the staple raw materials and food products that we import in large quantities?
2. What proportion of wool consumed in the United States is imported? Explain how insufficient production is not the sole factor in this import.
3. What has long been the great wool market of the world? What are the special advantages of such a world market for wool? How is wool sold in all great markets?
4. What great wool markets are mentioned? Where is most of the wool imported into the United States purchased?
5. Describe an Australian wool auction.
6. Outline the methods by which wool merchants come into possession of this commodity, with special reference to Australia. What is the function of the wool-buyer in international trade?

7. What part of our supply of hides and skins do we regularly import? What are the principal hides and skins so imported?
8. What are some of the leading world markets for hides and skins?
9. What proportion of the rubber of commerce is produced on plantations? Where are these plantations and who owns them?
10. Describe an importation of wild rubber from Brazil.
11. What are the sources of the sugar consumed in the United States? Who imports most of it?
12. What kind of tea is sold at auction in London? Who imports the Chinese and Japanese tea consumed here?
13. What proportion of raw silk that enters commerce does the United States import? How is silk from China and Japan handled here?
14. Where do we obtain most of our coffee? How does the Brazilian broker dispose of his coffee?

CHAPTER XII

1. What is meant by the statement: "Inland transportation facilities are quite as important a factor in our foreign trade as are ocean carriers"?
2. What is the mileage of the railroads of the United States? What body has the power of general regulation of the railroads?
3. How may the railroads of the United States be grouped as to territory served?
4. What suggestions are made as to a greater utilization of our inland waterways? What leading commodities largely make up the traffic on the Great Lakes?
5. What terminal facilities are found at most important ports? Who provides these? In what way are they important in foreign trade?
6. What proportion of our foreign trade passes through the port of New York? What are the other important ports?
7. Review the position of the American merchant marine up to the period of the Civil War.
8. What factors combined to prevent our regaining the maritime supremacy lost during the Civil War?
9. What measures have been taken since 1914 looking to the upbuilding of a merchant marine? With what results?
10. What is meant by a free port? What are its advantages?

11. What is meant by the North Atlantic trade route? What ports does it serve on the western end? On the European end? What route takes up the threads of the North Atlantic route at European ports and extends to southwestern Asia?

12. What are the two main-travelled routes across the North Pacific? What trade is most affected by the Panama Canal?

13. What are some of the uses of aircraft in international trade?

CHAPTER XIII

1. What is the great international highway? What part of our foreign trade is carried over this highway?

2. How are the two types of ocean traffic distinguished? What class of commodities does each embrace?

3. Why is water transportation cheaper than that by land?

4. What effect do the frequent fluctuations in ocean freight have upon c. i. f. quotations?

5. What two ways are used by ocean carriers in computing freight? What is meant by berth cargo?

6. What is a parcels receipt? When is it used to advantage?

7. What ocean freight agents are mentioned, and what are their functions?

8. What are fast freight lines? What is their purpose?

9. What is a c. i. f. quotation? What does it include and what does it not include?

10. What two distinct considerations are to be kept in mind when packing an export shipment?

11. Follow a shipment of household utensils from New York to an inland point in Chile.

12. How may freight and tariff charges be affected by packing? Give illustrations.

CHAPTER XIV

1. In what way does marine insurance facilitate the financing of foreign shipments?

2. What is Lloyd's? How was it organized? How is marine insurance secured and placed through Lloyd's?

3. Define the following marine-insurance terms: policy, the assured, premium, the risk, broker.

4. Mention six classes of marine-insurance policies. What should a shipper ascertain in regard to every policy taken out by him?

5. What is meant by "perils of the sea"? In what way has the meaning of the various clauses in the standard marine-insurance policy been interpreted?

6. Discuss the meaning of partial loss. How may insurance be obtained against war risk? To what extent is loss by fire covered?

7. What is meant by general average? What is the scope of the statement: "And all other perils, losses, or misfortunes"?

8. What are additional clauses? Why are they attached to a policy?

9. What is an open policy? What is meant by a certificate of insurance?

10. To whom is the insurance policy made payable? What is covered in the amount of the policy?

CHAPTER XV

1. On what credit terms has the bulk of the world's export business been carried on?

2. What countries are especially dependent upon credit? How do the seasonal fluctuations in exchange affect the demand for credit?

3. What precautions should be taken by an exporter before extending credit?

4. What are the three usual methods of extending credit?

5. What is the basis on which the greater part of the world's trade is transacted? Of what documents does a foreign commercial bill of exchange consist?

6. When a foreign bank receives a documentary draft drawn on a customer, how does it proceed? What two courses are open to the customer?

7. How does a draft drawn on a customer at the expiration of a credit term differ from a documentary draft? What is such a draft called?

8. What is the consensus of opinion in regard to open credit?

9. What is the occasion for long-time credits? What is the usual term?

10. What four distinct phases of the credit manager's work may be mentioned?

11. Mention all the different methods of obtaining credit information.

12. Give some suggestions for safeguarding foreign accounts.

13. Suggest ways in which the credit department can keep in touch with foreign risks.

14. How may the collection of foreign accounts be facilitated by the credit department? When payment is refused, what agencies may be resorted to?

CHAPTER XVI

1. What handicaps have American merchants overcome in the conduct of our foreign trade?

2. How has the extension of our banking system through the establishing of branch banks in foreign countries aided our foreign commerce?

3. Explain in detail how the Federal Reserve Act has materially assisted the development of our foreign trade.

4. Describe in detail a draft drawn by an exporter on a customer in a foreign country.

5. What is a banker's acceptance, and how does it differ from the usual form of draft?

6. What is a documentary draft and what documents in addition to the draft itself comprise this form of commercial paper?

7. What is the method employed by the exporter in securing cash where goods are shipped on condition of "cash against documents"?

8. What is a Del Credere guaranty, and how does it affect the marketability of the exporter's draft?

9. Give the steps in a typical transaction involving the discounting of a documentary draft.

10. What is a commercial letter of credit?

11. What is meant by confirmed credit and how does it differ from credit arising under a letter of credit?

CHAPTER XVII

1. Explain the working of domestic exchange, using an example similar to that given in the text.

2. How is the rate of exchange between two financial centres determined?

3. Why is New York said to be the financial centre of the United States?

4. What is foreign exchange? What is a bill of exchange? When does a bill of exchange become an acceptance? Are all bills of exchange drafts? Is the converse true?

5. What is the occasion for foreign exchange? What is the typical example of the working of foreign exchange?
6. What other factors besides the importation and exportation of goods give rise to transactions in foreign exchange?
7. Why are banks able to sell foreign exchange?
8. What is meant by the discount rate?
9. What is the mint par of exchange? How is it determined between any two countries?
10. What is the commercial par of exchange? Why does it fluctuate?
11. What are the gold points?
12. What is the determining factor in fixing the rate of exchange between two countries?
13. Outline the causes of the extreme fluctuations in exchange between England and the United States during the period of the World War.
14. What are some of the advantages of dollar exchange?
15. Explain the need of reciprocal trade relations if dollar exchange is to take the place of sterling.
16. What is arbitrated exchange?

CHAPTER XVIII

1. What is meant by the balance of trade, and when is such a balance said to be favorable?
2. What is the best proof of the unsoundness of the mercantile theory?
3. Explain the statement: "Exports and services rendered eventually balance imports and services received."
4. Show the impossibility of paying great international balances in gold. How does an excess of gold in a country tend to decrease exports and stimulate imports?
5. What was the relation between the excess of exports over imports of the United States in the thirteen years between 1904 and 1916 and the total supply of gold in circulation throughout the world?
6. What is the part that securities play in international trade?
7. What was the total of our excess of exports over imports for the decade 1900-1909, inclusive? What did we receive for this immense sum?
8. Mention a period in our history in which we had an unfavorable balance of trade, and at the same time added to our stock of the precious metals. What does this illustrate?

9. When is the foreign trade of a country said to be in equilibrium?

10. Into what two divisions do countries having an excess of imports throughout many years fall? In what case is such a balance of trade improperly designated as unfavorable?

11. Into what two divisions do countries having an excess of exports throughout many years fall? When does a lending nation become an creditor or capitalistic nation?

12. Trace the process of evolution of a typical nation through the four trade periods. Which period is the most desirable one?

13. What two alternatives now face the United States in regard to export trade?

CHAPTER XIX

1. What government departments directly co-operate in the development of our foreign trade?

2. Give a brief history of the consular service of the United States.

3. Describe the consular service as organized in 1919.

4. What are some of the various duties of consuls of the United States?

5. Name six publications classed under the general term of consular reports.

6. State specifically just what aid American consuls give exporters and importers.

7. What are the two most important publications of the Bureau of Foreign and Domestic Commerce, and what information does each contain?

8. What is a special agent? Outline his duties.

9. What specific services are rendered by foreign-trade advisers?

10. To what extent does the diplomatic service aid foreign trade?

11. Discuss the value of commercial treaties.

CHAPTER XX

1. What was the position of the United Kingdom in foreign trade in 1913?

2. What were the economic policies that contributed to the commercial supremacy of the United Kingdom?

3. What influence has the merchant marine exercised in the development of England's commercial life?

4. How did the rapid development of manufacturing influence the foreign trade of the United Kingdom?
5. What effect has England's free-trade policy had on her commercial position?
6. What arguments are now used in favor of a protective policy?
7. How did her foreign investments help develop her foreign trade? Give examples, one or more.
8. What is notable about the foreign trade of the United Kingdom between the years 1880 and 1913? During this period was the balance of trade favorable in fact or in name?
9. What part has the re-export trade played in the developing of British trade?
10. What percentage of British imports is made up of food-stuffs?
11. What five items comprise three-fourths of the exports of the United Kingdom?
12. What policy, consistently followed, has made British merchants impregnable in their own field?
13. Discuss the direction of British trade.
14. How was the foreign-trade policy of the United Kingdom affected by the war?

CHAPTER XXI

1. What peculiar conditions made foreign trade vitally essential to Germany?
2. Describe in detail the system which Germany organized for the building up of her foreign commerce?
3. Name the five principal factors in this system.
4. How did government control of railways and waterways contribute to the development of foreign trade in Germany?
5. Explain the operation of the syndicates.
6. To what extent did Germany's banking system co-operate for the general good?
7. What was the chief factor in Germany's bargaining tariff and how did this operate?
8. In what respect did Germany's foreign trade resemble that of England's?
9. What was the character of the bulk of Germany's imports?
10. What factor was influential in the development of German manufactures?

11. What nation was Germany's best customer, and from what nation did she purchase the bulk of her imports?
12. What effect will the reparation payments assessed against Germany have on her future in foreign trade? How will she meet these payments?

CHAPTER XXII

1. How does France differ from England and Germany in her attitude toward foreign trade? In what class of exports does she excel?
2. What products do the United States and Italy interchange?
3. What is peculiar in regard to the foreign trade of the Netherlands?
4. What factors conspired to give Belgium an important position in foreign trade?
5. What products do we obtain from the Italian peninsula?
6. What trade probabilities does Russia offer?
7. What are some of the advantages of our close relations with Canada?
8. What latent resources in Mexico await development?
9. Why is the development of trade with the South American countries important to the United States?
10. What are the leading exports and imports of Australia?
11. Speak of the commercial development of Japan.
12. What change in China's industrial life seems imminent? How may this affect the trade of nations?

APPENDIX

TARIFF RATES IN FOREIGN COUNTRIES

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IMPORTS AND EXPORTS OF PRINCIPAL COUNTRIES

(Compiled by the Bureau of Foreign and Domestic Commerce, Department of Commerce, from the official records of the various countries)

(Years ending December 31, unless stated otherwise; imports for consumption and exports of domestic merchandise, gold and silver bullion and coin not included, unless stated otherwise.)

Countries	Years	Imports	Exports
Argentina.....	1913	\$406,805,000	\$466,582,000
Australia, Commonwealth of <i>f a</i>	1913	388,102,000	365,426,000
Austria-Hungary.....	1913	691,538,000	562,247,000
Belgium.....	1913	974,623,000	717,152,000
Brazil <i>h</i>	1913	326,865,000	315,586,000
Bulgaria <i>f</i>	1911	38,474,000	34,634,000
Canada <i>e</i>	1914	633,692,000	431,590,000
Chile.....	1913	120,274,000	144,653,000
China <i>a</i>	1913	427,406,000	294,010,000
Cuba <i>h</i>	1914	133,975,000	170,776,000
Denmark.....	1913	229,234,000	170,812,000
Egypt <i>a</i>	1913	137,738,000	156,506,000
France.....	1913	1,642,117,000	1,326,950,000
Germany.....	1912	<i>b</i> 2,544,557,000	<i>b</i> 2,131,718,000
Greece.....	1912	30,428,000	28,209,000
India, British <i>i a e</i>	1914	594,521,000	792,359,000
Italy.....	1913	702,090,000	483,255,000
Japan <i>k</i>	1913	363,257,000	314,965,000
Mexico <i>f j</i>	1913	93,020,000	129,971,000
Netherlands <i>f</i>	1913	1,574,990,000	1,239,360,000
Norway.....	1913	148,022,000	102,084,000
Portugal.....	1912	80,585,000	37,062,000
Russia.....	1912	603,463,000	782,181,000
Spain <i>f</i>	1913	238,635,000	194,281,000
Sweden <i>f</i>	1913	226,872,000	219,049,000
Switzerland.....	1913	370,525,000	265,645,000
Union S. Africa <i>d</i>	1913	187,489,000	316,880,000
United Kingdom.....	1913	3,207,801,000	2,556,106,000
United States <i>a g</i>	1914	1,893,926,000	2,329,684,000
Uruguay <i>h c</i>	1913	50,666,000	65,142,000
Venezuela <i>g</i>	1914	17,005,000	26,324,000

a Includes domestic produce. *b* Final data. *c* Postal figures are for 1912.
d Including bullion and specie and articles for Governments. *e* Years ending March 31. *f* Includes bullion and specie. *g* Year ending June 30. *h* Not including specie. *i* Government stores not included. *j* Imports through post-office not included. *k* Excluding Formosa and Sakhalin.

COUNTRIES EXCELLING IN PRODUCTION OF PRINCIPAL STAPLES AND RESPECTIVE QUANTITIES PRODUCED THEREIN

(Compiled by Bureau of Foreign and Domestic Commerce, Department of Commerce)

Commodity	Year	COUNTRIES OF MAXIMUM PRODUCTION		COUNTRIES HOLDING SECOND PLACE	
		Country	Quantity	Country	Quantity
Corn.....	1914	United States.....	2,672,804,000	Argentina.....	204,562,000
Wheat.....	1914	United States.....	891,017,000	Russia <i>a</i>	776,960,000
Rye.....	1914	Russia.....	909,982,000	Germany.....	440,000,000
Oats.....	1914	United States.....	1,141,060,000	Russia <i>a</i>	962,506,000
Rice.....	1914-15	China.....	(<i>b</i>)	British India.....	662,638,905
Sugar.....	1913-14	Germany.....	2,674,986	Cuba.....	2,597,732
Tea.....	1914	China.....	d199,439,733	British India.....	e307,249,669
Coffee.....	1914	Brazil.....	d11,269,724	Venezuela.....	d917,397
Cocoa.....	1914	Gold Coast.....	119,367,000	Ecuador.....	93,328,000
Tobacco.....	1914	United States.....	1,934,679,000	British India.....	g450,000,000
Cotton.....	1914	United States.....	16,134,930	British India.....	4,185,578
Wool.....	1914	Australia.....	711,134,203	Argentina.....	d258,536,048
Silk.....	1914	China.....	(<i>h</i>)	Japan.....	d22,865,004
Coal.....	1914	United States.....	458,504,890	United Kingdom.....	265,643,030
Petroleum..	1914	United States.....	265,762,535	Russia.....	e67,502,677
Pig iron....	1914	United States.....	23,332,244	Germany.....	14,165,215
Steel.....	1914	United States.....	23,513,030	Germany.....	14,736,621
Copper.....	1913	United States.....	1,224,484,098	Japan.....	161,280,000
Tin.....	1914	Federated Malay States, Transvaal, Cape Colony, Natal.....	d109,854,000	Bolivia.....	d45,800,000
Gold.....	1914	United States.....	{ 8,395,964 173,560,000	United States... Mexico.....	{ 4,572,976 94,531,800
Silver.....	1914	United States.....	{ 72,455,100 j40,067,700		{ 70,703,828 j39,099,200

a European Russia and 10 governments of Asiatic Russia. *b* Actual production unknown. *c* Clean rice. *d* Domestic exports. *e* Production in 1913. *g* Unofficial estimate. *h* Production unknown; exports of raw silk, including wild, from China during 1914, 14,478,530 lbs.; exports of waste silk, 10,803,470 lbs. *j* Commercial value.

COMMERCE WITH CUBA, PORTO RICO, HAWAII, AND THE PHILIPPINES

Fiscal year ended June 30	EXPORTS FROM THE UNITED STATES TO—			
	Cuba	Porto Rico	Hawaii	Philippines
1909.....	\$43,913,356	\$23,272,170	\$17,125,765	\$11,182,175
1910.....	52,858,758	26,478,100	20,289,017	16,768,909
1911.....	60,709,062	34,671,958	21,925,177	19,723,113
1912.....	62,203,051	38,470,963	24,647,905	23,736,133
1913.....	70,581,154	33,155,005	30,646,089	25,384,793
1914.....	68,884,428	32,568,368	25,571,169	27,304,587
1915.....	75,530,382	30,149,764	24,600,585	24,691,611
1916.....	127,040,067	34,927,311	30,825,187	23,365,899
1917.....	178,292,328	49,539,249	44,274,475	27,217,831
1918.....	235,469,608	58,945,758	43,646,515	48,425,088

Fiscal year ended June 30	IMPORTS INTO THE UNITED STATES FROM—			
	Cuba	Porto Rico	Hawaii	Philippines
1909.....	\$96,722,193	\$26,391,338	\$40,399,040	\$9,433,986
1910.....	122,528,037	32,095,788	40,161,288	17,317,897
1911.....	110,309,468	34,765,409	41,207,651	17,400,398
1912.....	120,154,326	42,873,401	55,076,070	23,257,199
1913.....	126,088,173	40,529,665	42,713,184	21,010,248
1914.....	131,303,794	34,423,180	40,678,580	18,162,312
1915.....	185,707,901	41,950,419	60,610,935	24,020,169
1916.....	228,977,567	60,906,453	62,703,730	28,232,249
1917.....	253,395,410	73,062,221	74,365,938	42,436,247
1918.....	264,024,006	65,054,503	79,260,894	78,101,412

The shipments of merchandise from the United States to Alaska in 1916 were \$26,502,311; to the United States from Alaska, \$47,619,894.

WORLD'S PRODUCTION OF RUBBER

(Showing the great increase in plantation rubber, in tons)

	1905	1910	1915
Brazil.....	34,000	40,500	38,000
Other wild rubber.....	26,800	21,300	10,000
Plantation.....	145	8,200	90,000

WORLD'S PRODUCTION OF COTTON

(Bales of 500 lbs.)

Countries	1915-16	1914-15	1913-14	1912-13
United States.....	12,633,960	14,766,000	14,494,000	13,943,000
India.....	3,490,000	3,337,000	4,592,000	3,468,000
Egypt.....	910,000	1,235,000	1,439,000	1,416,000
Brazil and all others.	220,000	240,000	387,000	370,000

WORLD'S CONSUMPTION OF COTTON

(Bales of 500 lbs.)

Countries	1915-16	1914-15	1913-14	1912-13
United States.....	7,110,000	5,806,000	5,680,000	5,531,000
Great Britain.....	4,000,000	3,900,000	4,300,000	4,400,000
Continental Europe.	4,500,000	5,000,000	6,000,000	6,000,000
India.....	1,660,000	1,648,000	1,680,000	1,643,000
All others.....	2,303,000	2,381,000	2,198,000	2,068,000

WORLD'S PRODUCTION OF WHEAT

(In bushels)

Countries	1915	1914	1913
United States.....	1,011,500,000	891,017,000	763,380,000
Russia.....	.....	776,960,000	959,818,000
British India.....	333,376,000	312,032,000	362,693,000
France.....	258,102,000	319,667,000	321,000,000
Canada.....	336,258,000	161,280,000	231,717,000
Hungary.....	152,934,000	105,237,000	151,348,000
Argentina.....	178,221,000	113,904,000	187,391,000
Italy.....	170,541,000	169,442,000	214,405,000
Spain.....	139,298,000	116,089,000	112,401,000
Germany.....	160,000,000	145,944,000	171,075,000
Roumania.....	89,241,000	49,270,000	83,236,000
England.....	68,652,000	59,217,000	.....
Austria.....	60,000,000	55,000,000	.....
Australia.....	25,626,000	106,600,000	94,880,000
Bulgaria.....	46,212,000	29,654,000	40,000,000
Algeria.....	34,654,000	30,000,000	36,848,000
Tunis.....	11,023,000	2,205,000	5,511,000
Egypt.....	39,148,000	32,831,000	38,426,000

WORLD'S PRODUCTION AND CONSUMPTION OF COFFEE

(In thousands of pounds)

Country producing		Country consuming	
Brazil.....	1,490,715	United States.....	1,055,089
Central America.....	231,315	Germany.....	362,084
Venezuela.....	121,350	France.....	304,813
Colombia.....	136,500	Austria-Hungary...	130,952
Dutch East Indies...	63,799	Netherlands.....	85,955
Haiti.....	57,594	Belgium.....	93,250
Mexico.....	53,759	Sweden.....	63,744
United States (Insular)	48,179	Italy.....	88,102
British India.....	39,973	United Kingdom...	32,723
All others.....	343,000	Denmark.....	31,967

THE TWELVE GREATEST SEAPORTS

The following table, prepared by the Bureau of Foreign and Domestic Commerce, Department of Commerce, shows the relative rank in tonnage movement of the principal ports of the world. Figures of coastwise trade are not included.

Port	Year	Entered tons	Cleared tons
New York <i>a</i>	1915	12,647,606	12,162,374
London <i>g</i>	1913	13,725,156	11,403,908
Hamburg <i>b</i>	1913	14,185,000	14,440,000
Rotterdam.....	1913	12,307,358	12,200,906
Hongkong-Victoria <i>c</i>	1912	10,805,536	10,809,459
Shanghai <i>d</i>	1912	9,186,340	9,456,463
Rio de Janeiro.....	1913	8,458,896	8,459,451
Marseilles.....	1912	7,986,609	8,076,767
Liverpool <i>h</i>	1913	12,054,056	11,209,415
Singapore <i>e</i>	1912	7,927,842	7,955,305
Colombo <i>f</i>	1912	7,348,900	7,347,144
Cardiff.....	1913	7,617,450	10,447,151

a Fiscal year. *b* Includes only oversea navigation. *c* Exclusive of Chinese junks. *d* Tonnage of vessels entered and cleared at the Maritime Customs. *e* Exclusive of native craft, warships, transports, yachts, and vessels under 50 tons. *f* Excluding the tonnage of vessels that called for the purpose of coaling and for orders only. *g* Includes Queensborough. *h* Includes Birkenhead.

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